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THE
WORK OF A BANK

AN
ELEMENTARY TEXT-BOOK
FOR
BANK OFFICIALS

BY

H. T. EASTON

AUTHOR OF "BANKS AND BANKING"
TATE'S MANUAL OF FOREIGN EXCHANGES
ENGLISH BANK BOOK-KEEPING



FOURTH EDITION

REVISED AND ENLARGED

LONDON
EFFINGHAM WILSON
54 THREADNEEDLE ST., E.C.

1916

BY SAME AUTHOR.

ENGLISH BANK BOOK-KEEPING.

WITH AN INTRODUCTION ON THE THEORY AND
PRACTICE OF ACCOUNTS.

By H. T. EASTON.

Price 5s. net.

LONDON: EFFINGHAM WILSON, 54 THREADNEEDLE ST., E.C.

TO
LINDSAY ERIC SMITH, Esq.,
THIS SMALL VOLUME IS
DEDICATED
AS AN EXPRESSION OF ESTEEM
AND TO COMMEMORATE THE HISTORY
OF THE BANKING HOUSE
OF
MESSRS. SMITH, PAYNE & SMITHS,

PREFACE.

THE purpose of this small volume is to give an outline of the work carried on in a bank, and is intended chiefly for those who are about to commence their banking career. It will also be found useful to lady clerks who wish to understand the various forms of money and the methods of bank book-keeping.

Although there are many books which treat of the history of banking, there are but few which illustrate the practical side of the subject.

The successful candidate on obtaining his appointment soon realises the difference between school and office work. For example, the book-keeping taught in school is usually of a theoretical nature, without reference to the different methods required for every business. This is illustrated in the case of banking, where the chief commodity is money in a variety of forms. Again, the documents handled, *viz.*, cheques and bills of exchange, are possibly met with for the first time, and the terms used such as drawer, acceptor and indorser are unknown.

The author has endeavoured to give a general out-

line by means of specimens of books and forms actually in use. It would be impossible in a small manual to mention all the subsidiary books, but forms of the principal ones are given.

This volume is also intended to be an introduction to the study of bank book-keeping; the student will find a complete set of accounts in "English Bank Book-keeping".

The favourable reception of previous editions has enabled the author to thoroughly revise and enlarge the book.

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CHAPTER 1.

INTRODUCTION.

A KNOWLEDGE of banking practice and routine is essential to those who intend to enter the banking profession.

The work seems at first somewhat mechanical, but it must be remembered that the clerk may possibly become a manager of a branch and subsequently occupy the position of general manager at the head office.

However, this can only be attained by those who intend from the beginning of their career to get a practical insight of banking, and to study the subject in all its aspects. The movements of capital from one country to another, the variations in the rate of interest, the meaning of credit and the various methods of trade and competition, are some of the subjects which a banker should understand in order to manage successfully a great institution.

Large amounts of capital are paid into a bank in the shape of money, and one naturally wants to know something of the machinery which is required to deal with the same.

For a beginner the work appears somewhat com-

plicated, but it is soon understood that there must be subdivision, although each division forms part of the whole system.

This subdivision is necessary because of the various ways by which cheques are collected, however when a simple transaction takes place the book-keeping is not complicated.

For example, a cheque is paid over the counter, notes and coin being given in exchange.

The effect is as follows: coin and notes held in reserve are diminished, but, on the other hand, the amount held for depositors is correspondingly reduced.

The balance would show the transaction in the following way:—

Cash withdrawn	Notes £8,000
" "	Coin 2,000
<hr/>	

BALANCE SHEET.

Before Withdrawal.

Dr.		Cr.
<i>Cash—</i>		
Notes	£70,000	Current Accounts
Coin	20,000	Balance
	<hr/>	
	£90,000	<hr/>
		£90,000

After Withdrawal.

Dr.		Cr.
<i>Cash—</i>		
Notes	£62,000	Current Accounts
Coin	18,000	Balance
	<hr/>	
	£80,000	<hr/>
		£80,000

This of course eliminates other items which appear in a bank's statement of account.

A beginner should always remember that every banking operation has the effect of either increasing or diminishing the liabilities of the bank to the public.

A banker may be defined as a merchant dealing in capital, and in this capacity acts as a broker between two principals.

There are two sets of people to deal with. On the one hand we have the depositor who wishes to obtain interest on his capital, and on the other the borrower who is willing to pay a higher rate of interest than the amount given to the depositor.

The difference between the amount paid to the depositor and that paid by the lender, less a certain proportion for working expenses, would constitute the banker's profit.

The banker, however, obtains additional profit in the shape of commission for services rendered to the customer, and also from the capital left on current account, upon which little or no interest is paid.

The amount so received compensates the banker for the work involved in cashing cheques and performing other services.

The following statement gives a good idea of what is done for the customers of the bank.

1. The bank opens drawing accounts with commercial houses and private individuals upon the plan usually adopted by other bankers.



2. Deposit receipts are issued for sums of money placed upon these accounts, and interest is allowed for such periods at such rates as may be agreed upon, reference being had to the state of the money market.
 3. Approved bills of exchange are discounted, and loans made upon negotiable securities.
 4. The agency of foreign and country banks is undertaken.
 5. The purchase and sale of stocks are effected as well as dividends collected on stocks, and the receipt of pay and pension for customers is also undertaken.
 6. Foreign and Colonial bonds are received and the coupons detached, and deeds and other valuable security are also received for safe custody.
 7. The books of corporations and other companies are kept and the dividends paid half-yearly.
 8. Circular notes and letters of credit are issued when required.
 9. Money is received at the branches for transmission to other branches.
- It is desirable to take the above divisions in the order described because certain books and forms are required for each division.
- Although the routine of a large London bank will be described, yet the system at a branch establishment would be to some extent of the same character; for example, the opening of an account, the issue of deposit receipts, and the discounting of bills, would

require the same books and forms as those used at the head office.

The work of a large institution must be subdivided, principally because efficiency cannot be obtained without such divisions.

Economists tell us that by division of labour the best results are obtained, and it has been found by experience that an official with certain definite work is more efficient than one who has multitudinous duties to perform.

For example, in a large bank all cheques are paid by those known as paying cashiers who become experts in their knowledge of signatures and other matters which are of importance.

Similarly bills of exchange, which form a very important item in the daily routine, are dealt with by a separate department where the clerks have gained by long experience a practical knowledge of the subject.

It is desirable that the principles of banking should be clearly understood by every official so that he may see that his work although apparently simple forms part of a system for the transfer of capital from one group of persons to another.

Banks are in reality great storehouses of capital, and for that reason take a very important part in the development of the resources of the country.

Then, again, the various forces which affect the supply and demand for capital are of an important character.

The effect of such forces is illustrated by the term interest, which is the money value for the loan of capital; the rate which affects the profits of banks will be considered when loans and advances are described.

The growth and development of trade has an important effect upon the work of a bank.

A district in some distant part of the world is opened up and new methods are required for dealing with it so that the machinery of a bank is utilised to carry out successfully the various requirements of the commercial community.

For example, our Eastern trade is now partly carried on by means of telegraphic transfers, and this system has had some effect upon bills of exchange which were formerly utilised to a larger extent, so that the banking routine has somewhat altered.

There is in fact a continual change taking place, partly due to new forms of procedure and also to new methods which are necessary in consequence of better trading facilities.

Foreign exchange, which became a necessity in consequence of increased trade with other countries, now forms an integral part of the business of banking.

Again, commercial dealings are now mainly conducted on a cash basis, so that bill transactions are considerably reduced, but, on the other hand, the use of cheques has largely increased, as illustrated by the Clearing House returns.

The various forms and books to carry on the work will be described, but it must be remembered that no uniform system has been adopted by the banks.

It has been stated that a particular business requires a certain form of procedure, and in the same manner the books of a bank in an agricultural district would be somewhat different from those utilised at a large shipping centre.

Some banks consider it necessary to have additional checks upon the entries in the cash books and ledgers, but other institutions find that further safeguards are unnecessary. Bank book-keeping should be quite simple, so as to be easily understood, but the check upon the entries must always be quite perfect.

Although specimens of books are given it must not be assumed that they are the best or only forms in use.

It is hoped that an outline of banking work may serve as an introduction to the study of bank book-keeping.



CHAPTER II.

QUALIFICATIONS.

IN order to be qualified for the work, a bank official should have received a good commercial education.

The curriculum of the modern side of any public school would answer all requirements. For example, a knowledge of commercial arithmetic, book-keeping, shorthand, history, geography, précis, indexing, writing, and drawing is important.

Then, again, modern languages such as French and German are advantageous, because the London banks have correspondents in the principal towns on the Continent as well as other foreign countries.

The principles of book-keeping should be thoroughly understood since the routine of a bank largely consists of book entries, and the young official should realise that such entries form part of the whole system of bank accounts, accuracy and neatness being most essential. A candidate who has passed the Oxford or Cambridge Local Examinations for Seniors, or the Matriculation Examination of the London University, would be considered duly qualified for an appointment.

The last-named is an excellent qualification, since it forms an entrance examination to many professions.

The holder of such a certificate would find little difficulty in passing the final examination of the Institute of Bankers in English Composition and Banking Correspondence.

The examinations of the London Chamber of Commerce are also of a very practical nature, so that a holder of a certificate issued by that body would be considered duly qualified for a bank appointment. The examination for the Junior Certificate is as follows :—

Obligatory Subjects.

(a) English essay, including orthography and analysis.

(b) Handwriting.

(c) Arithmetic, including mental arithmetic, tots, and a knowledge of the metric system.

(d) A modern foreign language, comprising translation, dictation, composition, and conversation (selected from group "B").

(e) Commercial geography.

(f) Commercial history.

The optional subjects are divided into four groups, viz., mercantile, linguistic, mathematical, and scientific ; the candidate must select two from the said groups.

The subjects of the examination for the Senior Commercial Certificate are as follows :—

1.—*Obligatory Subjects.*

- (a) English.
- (b) Foreign (including Oriental) languages and Esperanto (any two preferably including one other than French or German).
- (c) Mathematics.
- (d) Commercial history and geography.
- (e) Elements of political economy.

2.—*Optional Subjects.*

From which candidates, in order to obtain a "Higher Commercial Education Certificate," must, in addition to the obligatory subjects, select at least two of the following:—

- (a) Mathematics, including the compulsory portion treated more fully, and in addition trigonometry.
- (b) Methods and machinery of business.
- (c) Banking and currency.
- (d) Commercial and industrial law.
- (e) Book-keeping and accountancy.
- (f) Chemistry.
- (g) Photography.
- (h) Drawing.
- (i) Shorthand or Stenotypy (English, French, and German).
- (j) Typewriting.
- (k) Handwriting.

Note.—No candidate will be granted a certificate in any subject unless the paper is written in good and

legible handwriting, and the spelling and composition are satisfactory.

The subjects entitled the machinery of business, book-keeping, banking and currency, commercial law, and also a colloquial knowledge of foreign languages, are useful to any banking official.

It is of great importance that the candidate should write clearly and distinctly, and this is especially necessary in the case of figures, which should always be very distinct, because errors often arise in consequence of figures being made in a careless manner. The following requirements of the London Chamber of Commerce with reference to writing should be carefully observed :—

“The old-fashioned copy-book style of penmanship, thick in the downstrokes, almost invisible in the upstrokes, and abounding in flourishes, should be avoided. The characteristic most desired is legibility. Each letter should, therefore, be clearly and accurately formed, so that its identity may be distinguished apart from its position in the word—the u’s distinguished from the n’s, etc.—and the turnings should be round and not angular. The writing, too, should be of moderate thickness and regular, and the loops and tails of letters should be short and full; otherwise they might run into and thus mar the legibility of the line above or below.”

It has been thought desirable to give some specimens of handwriting in order to illustrate the style required.

We beg to inform you that the rate
of interest on deposits has this day
been reduced to 1% per annum.

Lombard St.
E.C.

Lombard Street E.C.
December 1897

gentlemen,

We have to acknowledge
the receipt of your favour of the
instant enclosing a remittance for

Liverpool.
20th. Sept. 1897.

Sir.

I beg to enclose as requested a
Draft for £160.2.6 in payment of
remittance received in your favour
of the 16th. Inst less $\frac{2}{3}$ rd commission.

Your most obedient Servt

J. Jones

Manager.

(Reduced from the originals.)

Although a candidate may hold several certificates, yet on receiving a nomination for a clerkship he may be expected to pass a qualifying examination. Some of the banks in London accept a certificate granted by the City of London College for the following subjects, *viz.* :—

Writing.

Spelling.

English composition.

Arithmetic (including vulgar and decimal fractions, stocks and interest).

This does not appear to be a difficult test, but other banks require, in addition to the above, any one, but not exceeding two, of the following subjects, *viz.* :—

English history.

Geography.

Latin.

Greek.

German.

French.

Algebra to quadratic equations.

Euclid—first two books.

When a candidate is found duly qualified he must pass a medical examination before obtaining an appointment. The next step in his career should be the continuation of study in order to obtain the certificates granted by the Institute of Bankers.

If his knowledge of mathematics, book-keeping and

modern languages has been maintained, he will not experience much difficulty in passing the examination in these subjects.

Many of the banks recognise the value of the certificate granted by the Institute; a sum of £5 5s. is given to those who pass the preliminary examination and £10 10s. to those who obtain the certificate.

In addition to this cash payment, the higher appointments in a bank would, as a rule, be given to those who have passed the examinations.

The examination for the certificate is as follows:—

Certificate of the Institute.

REVISED SYLLABUS.

Session 1911-12, and until further notice.

ECONOMICS.

Syllabus. Preliminary and Final Examinations.

Nature and scope of economic science.

Fundamental notions: wealth, value, utility, exchange.

Production: land, labour, capital, organisation, etc.

General relations of demand, supply, and value.

Rent, interest, profit, wages; general theory of distribution.

Money; credit; fluctuations and crises.

Currency and banking: history and economic principles.

Bank of England, money market, clearing house.

International trade, and the foreign exchanges.

* Tariffs, bounties, free trade and protection.

Taxation : principles and methods.

* National and municipal debts : history and operation.

No particular course of reading is insisted upon, but for the guidance of candidates certain books are recommended.

PRACTICAL BANKING.

Preliminary Examination.

Elementary questions on—

Banking : its nature and functions.

Definitions of banking and mercantile terms.

Banking operations.

Final Examination.

In addition to the above, questions will be set on :—

The ordinary practice of bankers in regard to—

(a) Accounts.

(b) Bills discounted.

(c) Advances.

(d) Deposit of valuables.

* The subjects marked (*) refer to the Final Examinations only. In the Final Examinations candidates are expected to show a fuller and more extended knowledge of the whole syllabus.

The Bank of England: its relation to the banks and the public.

Banking investments.

Advances upon securities.

Exchanges.

Commercial crises.

COMMERCIAL LAW.

Preliminary Examination.

Questions will be set on—

Statute law relating to bills of exchange, promissory notes and cheques, including stamps thereon.

Final Examination.

Elementary questions will be set on—

The general principles of commercial law, including the law of bankruptcy.

Questions of a more advanced character on—

Law of negotiable instruments, bonds, equitable securities and guarantees.

Candidates will not be expected to quote cases, but will be expected to give the reasons for their answers.

COMMERCIAL ARITHMETIC.

Preliminary Only.

Vulgar and decimal fractions
Involution and evolution

{ with short methods of obtaining approximations in the different operations.

Proportion. Percentages. Interest—simple and compound. Annuities. Discount (bankers' and true). Trade discount.

Commission. Brokerage.

Averaging and balancing of accounts.

Profit and loss.

Purchase and sale of stocks and shares.

Chain rule—exchanges and exchange operations.

Metric tables.

ENGLISH COMPOSITION AND BANKING CORRESPONDENCE.*

Final Only.

Questions will be set on—

The laws of style, including purity and perspicuity in the use of words ; structure of sentences.

† The writing of business letters.

† Business reports.

† Précis-writing.

(In marking this paper great importance will be attached to handwriting.)

BOOK-KEEPING.

Preliminary Examination.

Definitions.

General principles.

* Candidates are not eligible to enter for English composition and banking correspondence until they have passed the examination in commercial arithmetic, or arithmetic and algebra.

† Special importance is attached to these requirements, and relatively high marks will be awarded for proficiency in them.

Final Examination.

Double Entry { Elucidation.
 Illustration.

ADDITIONAL AND VOLUNTARY SUBJECTS.*

(1) FRENCH.

Preliminary.

The Preliminary Examination will comprise a translation from French into English from *Récits et Nouvelles*, E. About (Hachette's edition, with notes), and of simple passages and letters, some questions on grammar, the translation into French of easy sentences, and a few elementary questions relating to the French decimal system. Special stress will be laid on a thorough knowledge of French coins, notes, etc., and also their intrinsic as well as current value in English money.

Final.†

The Final Examination will comprise translations from French into English from (1) *Eugénie Grandet*, by Balzac (Hachette's edition, with notes), and (2) Courcelle-Seneuil's *Les Opérations de Banque* (Hachette's 10th edition, 9 francs); and also the

* Candidates are informed that they cannot take both French and German in the same year.

† Candidates are not eligible to enter for this unless they have passed the Preliminary Examination in French and also in the five obligatory subjects.

translation from English into French of unseen paragraphs, of a business letter and of idioms.

(2) GERMAN.

Preliminary.

I.

Translation from German into English :—

- (a) *Waldnovellen*, by Baumbach. Edited by Dr. W. Bernhardt (Geo. G. Harrap). 1s. 6d.
- (b) Preisinger's *German Commercial Reader* (Rivingtons), pp. 19-40 and 106-120.

II.

Translation from English into German of a few easy sentences. German handwriting to be used.

III.

Questions in German grammar, which may be answered in German or English handwriting.

*Final.**

I.

Translation from German into English :—

- (a) Some unseen passages.
- (b) *Technik des Bankwesens*, von Dr. Walter Conrad (Sammlung Göschen, Leipzig).
- (c) *Das Handelswesen*, von Prof. Dr. Wilh. Lexis. Vol. II. (Sammlung Göschen, Leipzig).

* Candidates are not eligible to enter for this unless they have passed the Preliminary Examination in German and also in the five obligatory subjects.



II.

Translation from English into German :—

- (a) A piece of ordinary composition.
- (b) A business letter. German handwriting in both pieces.

In order to qualify for higher appointments the bank official should always remember that commercial knowledge is never complete, in consequence of the continual change taking place in the machinery of business and methods of trade.

Then again it is necessary to thoroughly understand what is the basis upon which the prosperity of banks depends.

For example, the investments of capital, the variations in the rate of interest, the meaning of credit, and competition, are some of the economic questions which a banker must take into account. The various methods of trade, wages, and value of property play an important part in the prosperity of our banking institutions.

The money article of the daily newspaper should be clearly understood, since it explains the position of the money and stock markets both here and abroad. The state of the foreign exchanges exemplify how the various money markets form part of a great system of international finance.

The prices of commodities, together with dealings at the corn, metal, and other exchanges, are of importance since the banker is called upon to make advances on produce of various kinds.



CHAPTER III.

FORMS OF MONEY.

IN a bank by the term money is meant coin, but there are other documents used and known as "cash articles" which perform the same work as actual coin. All the documents which are used in a bank for the purpose of transferring capital from one person to another will be described. It must, however, be understood that although documents are used, it is always on the understanding that if necessary payment must be made in actual coin.

We have in this country a gold currency, the sovereign being the basis of exchange. The weight of the sovereign is 123·27447 grains of English standard gold, there being one part of alloy to eleven parts of fine gold. From the weight of the sovereign we get the Mint price of standard gold, *viz.*, £3 17s. 10½d. per oz.

Both silver and copper coins circulate, but are known as token money, because they represent fractions of gold coins and are not intrinsically worth their value. Silver coins are a legal tender for 40s., and bronze coins for 1s.

There are two forms of bank notes in circulation in this country, *viz.*, notes issued by the Banks of England and Ireland, and notes issued by English, Scotch, and Irish banks.

With regard to the notes of the Banks of England and Ireland, they are a legal tender in their respective countries, but their issue is limited by Acts of Parliament. The holder is entitled to demand coin for them on presentation for payment at the bank which issues them.

The notes issued by English, Scotch, and Irish banks are not a legal tender, but form a useful circulating medium in the country.

The cheque is the most important document used in a bank: the early bankers of this country, when capital was deposited with them, gave in exchange a bundle of notes, but in course of time this system was abolished in consequence of the restrictions placed on their issue.

Instead of issuing notes, the amount deposited was recorded, and the depositor received a book of forms to bearer or order so that when necessary his capital could be withdrawn. As these orders were numbered they formed a check on the banker's ledger, so they were at first called "checks," but afterwards the term "cheque" was adopted.

* A cheque is legally defined as a bill of exchange drawn on a banker payable on demand.

The following are examples of cheques:—

FORMS OF MONEY.

23

LONDON, 29th January, 1912.

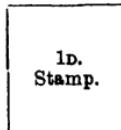
The London and Bank, Ltd.

Pay Self or Bearer

Five Pounds.

£5

JOHN EVANS.



LONDON, 29th January, 1912.

The London and
Pay John Brown or Order
Fifty Pounds.

£50

ble.

1D.
Stamp.

JOHN EVANS.

The first-named cheque would be paid to any one on presentation, but in the case of the second the addition of two parallel transverse lines makes it a "crossed cheque," and therefore can only be paid through a banker. It will also be noticed that this cheque bears on its face the words "not negotiable," which means that the holder takes the cheque at his risk in case of any defect in the title.

The person who draws the cheque is called the drawer, and the person in whose favour it is drawn is called the payee.

A banker must pay all cheques drawn upon him to the extent of the funds belonging to the customer or to the extent of any overdraft, unless otherwise in-

structed, but notice of death or of an available act of bankruptcy puts an end to the notice to pay.

Cheques may be payable to order or bearer, and if to the latter no indorsement is required. On the other hand, if to order it must bear the indorsement of the payee or what purports to be his indorsement. A bearer cheque is transferable by delivery, but an order cheque is transferable by indorsement and delivery.

A cheque is crossed *generally* when it bears across the face of it an addition of :—

(a) The words “and Company” or any abbreviation thereof between the parallel transverse lines either with or without the words “Not negotiable”; or—

(b) Two parallel transverse lines simply either with or without the words “not negotiable”.

A *special* crossing is constituted when in addition to the above the name of a banker is written on the face of the cheque.

In addition to bank notes and cheques there are bills of exchange which are utilised for the payment of debts.

These credit documents play an important part in banking, and the work connected with them is of a varied character.

Merchants who accept bills generally make them payable at their bankers, and these are paid at maturity in the same manner as cheques.

Then, again, bankers buy bills from their customers, and when this takes place they are said to be discounted.

The method of dealing with this class of bills will be shown when the lending of the resources of a bank is considered.

A bill of exchange is defined as an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a determinable future time, a sum certain in money to, or to the order of, a specified person or to bearer.

There are two classes of bills, known as inland and foreign.

The following is the usual form of an inland bill:—

“ £100. “ LONDON, 1st January, 1897.

“ On demand (or at sight or at months after date) pay to my order the sum of One Hundred Pounds for value received.

“ WILLIAM BROWN.

“ To Messrs. JONES & Co.,
Sheffield.”

A foreign bill is as follows:—

“ Exchange for £1000. “ SANTOS, Jan. 8, 1912.

“ At ninety days' sight pay this First of Exchange (Second and Third not paid) to the order of Messrs. Wm. Brown & Co. the sum of £1000 for

value in account 250 Bags Coffee per S.S. *Indian Prince*.

"L Credit cabled from New York. Jan. 5, 1912.

"To London and Southern Bank, Ld.

"F. SMITH & Co.

"In case of need with Messrs. Jones & Son,
London."

When this bill is accepted by the Bank it is known in the market as a "Bank Acceptance".

A qualified acceptance means that the drawee only gives a qualified assent to the order of the drawer of a bill of exchange.

This may be either conditional, that is the payment depends upon the fulfilment of a condition stated in the bill; partial, that is a part only of the bill is to be paid; local, that is making the bill payable at a particular place, and then only qualified as to time, as where a bill drawn for three months is accepted for six, and an acceptance by some and not all of the drawees when there are several.

The holder of a bill may refuse to take a qualified acceptance, and any holder other than the drawer taking such an acceptance must immediately give notice of the fact to prior holders; failing such notice they are discharged from liability on the bill.

The holder of a bill in due course is defined as a holder who has taken a bill complete and regular on the face of it under the following conditions :—

1. That he became the holder of it before it was overdue and without notice that it had been previously dishonoured if such was the fact.
2. That he took the bill in good faith and for value, and that at the time the bill was negotiated to him he had no notice of any defect in the title of the person who negotiated it.

The person who makes the bill is called the drawer, and the person to whom it is addressed is called the drawee, and if accepted by him is known as the acceptor. As bills form a method of payment, they pass from one person to another, or, as it is termed, are negotiated. When this takes place, the holder of the bill before delivery signs his name on the back, and is termed an indorser. If the indorser makes the bill payable to another person, the latter is known as an indorsee.

Every indorsement on a bill really constitutes the indorser as a new drawer, and the indorsement admits the signature and capacity of every prior party, so that every indorsement on a bill is an additional security to the banker.

It sometimes happens that an indorsement is placed on a bill which limits its further negotiability, such as: "Pay D—— only," and this is known as a restrictive indorsement.

Then, again, there might be a special indorsement, and when so endorsed is payable only to the indorsee and can only be negotiated by his indorsement.

A bill of exchange requires an *ad valorem* stamp which must be impressed on it. The duty on inland bills of exchange is as follows:—

Any amount on demand - - - - -	1d.
Of any other kind and promissory note—	
	Duty. s. d.
Not exceeding £5 - - - - -	- 0 1
Exceeding £5 and not exceeding £10	- 0 2
,, 10 ,, 25	- 0 3
,, 25 ,, 50	- 0 6
,, 50 ,, 75	- 0 9
,, 75 ,, 100	- 1 0
,, 100 ,, 200	- 2 0
And then for every £100, and also for any fractional part of £100 - - - - -	1 0
<i>Exemptions.</i> —Bills issued by the Bank of England or by the Bank of Ireland, drafts or orders drawn by any banker in the United Kingdom upon any other banker in the United Kingdom not payable to bearer or to order, and only used for the purpose of settling any account between such bankers.	
The duty on a bill of exchange drawn and expressed to be payable out of the United Kingdom when actually paid or endorsed or in any way negotiated in the United Kingdom shall, when the amount for which the bill is drawn exceeds £50, be reduced so as to be, when the amount exceeds £50 and does not exceed £100 - - - - -	6d.

Exceeds £100 for every £100 and also for any fractional part of £100 - - - - - 6d.

All bills must be presented for payment by the holder on the day they fall due; those payable after date or after sight are allowed three extra days; this additional time is called "days of grace". If the bill is not presented on the due date the drawer and indorsers would be discharged.

A bill is usually drawn on demand, or at a fixed or determinable time, such as a fixed period after date, at sight or after the occurrence of a specified event which is certain to happen.

If a bill is not payable to bearer, the payee must be named or otherwise indicated with reasonable certainty, and if it does not contain words prohibiting transfer, it is payable to the person named or to his order at his option.

A bill is payable to "bearer" which is expressed to be so payable, or on which only the last indorsement is an indorsement in blank.

A bill is "dishonoured" by non-payment when it is duly presented for payment and payment is refused, or cannot be obtained, or when presentment is excused and the bill is overdue and unpaid.

A bill is "discharged" by payment in due course by or on behalf of the drawer or acceptor.

Promissory notes are also negotiated through the medium of banks; such a document may be defined as an unconditional promise in writing made by one

person to another, signed by the maker, engaging to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer.

In addition to bank notes, cheques, and bills of exchange there are postal notes and money orders. All these documents are designated "cash articles".

A knowledge of the law relating to cheques and bills of exchange is essential; the bank official will find a small volume published by Effingham Wilson very useful.

CHAPTER IV.

CURRENT ACCOUNTS.

THE junior clerk on commencing his career becomes at once cognisant with the three principal books in use, *viz.*, the pass-book, cash-book, and the ledger, and also with the documents which are entered in those books, *viz.*, cheques, bills of exchange, and notes already described. It is important to remember that the three sets of books must always agree, and the work largely consists in their examination.

Possibly the first work undertaken would be to write up pass-books, that is, to enter the receipts and payments. The former are entered from what are known as dockets, which are made out when a sum of money is paid into the bank. The payments are entered from the cheques and bills of exchange which form the medium of drawing money by a customer from the bank.

Thus we have credit and debit entries to be made in the three books already mentioned.

With regard to the terms used, the junior official

will find that by money is meant actual coin, and "cash articles" as already stated are bills and cheques sent out for collection.

Instead of the term adding an account it is usual to say to "cast" the same. The difference between the credit and debit sides of an account in the ledger is called the balance.

The collection of cheques and bills payable at other banks, or of bills made payable at the place of business of the acceptor, is also undertaken by the junior clerks, who must exercise care in the performance of this duty.

The work in connection with current or drawing accounts will now be considered. Such accounts are so called because the customer is continually paying in and drawing out sums of money in order to carry on his daily business.

The cheques paid in or drawn on a bank form the most important item, and to facilitate the work they are divided into groups because the collection is made through different channels. In recent years letters are placed in the left-hand corner of cheques in order to show the method of collection.

For that purpose the following letters are used, *viz.*, M, which signifies that cheques so marked are collected through the Metropolitan Clearing at the Clearing House.

Cheques marked with the letter T are collected through the Town Clearing, and the letter C is used

for cheques payable in the country, and collected through the Country Clearing.

The cheques in a London bank are classified as follows :—

1. Cheques drawn upon Clearing Banks.

- (a) Town Clearing.
- (b) Metropolitan Clearing.
- (c) Country Clearing.

2. Cheques drawn upon Non-clearing Banks.

- 3. " " " Bank of England.
- 4. " " " Customers of the Bank.
- 5. " " " Scotch Banks.
- 6. " " " Irish Banks.

When a customer who has been properly introduced opens what is known as a drawing account, he is supplied with a cheque-book containing a certain number of cheques to bearer or to order, and also a pass-book which forms a complete record of all sums received and paid, and is simply a copy of the ledger account.

The customer also writes his name in a signature-book, so that the bank can verify his signature upon cheques and bills of exchange.

There are two forms of pass-book as follows, *viz.* :—

THE LONDON BANK IN ACCOUNT WITH MESSRS. JOHN BROWN & CO.
DR. CR.

	£	s.	d.		£	s.	d.
To Cash - -	90	0	0	By Self - -	20	0	0

MESSRS. JOHN BROWN & Co. WITH THE LONDON BANK.							
DR.				CR.			
To Self	£	S.	D.	By Cash	£	S.	D.
	20	0	0		90	0	0

In the first example given the bank debits itself with cash paid in and credits itself with cheques drawn.

In the second form the customer is in account with the bank, so sums paid in are credited, and sums drawn are debited.

Both forms are correct, but when the first is adopted the ledger account is reversed, *viz.*, sums paid in are posted to the credit side, and sums drawn out on the debit side. As the customers are the bank's creditors, cash received is thus posted to the credit side of the ledger.

The customer is also supplied with a book of paying-in forms, as follows :—

Silver	£	S.	D.	£	S.	D.
Gold	10	0	0	10	0	0
Bank Notes				20	0	0
Country Notes				0	0	0
London Cheques	60	0	0	60	0	0
				90	0	0

The separation of the various items paid in is of great importance, because it facilitates the work.

The "paying-in" slip is utilised for posting in the cash-book and ledger.

With regard to the cash-books, there are various forms, because in some banks it is the custom to show the daily receipts and payments in one book.

When the cash-book is a record of receipts and payments, the following form is adopted :—

Received—

Name.	Amount.			Cash Articles.			Notes.	Money.		
	£	S.	D.	£	S.	D.	£	£	S.	D.

and the debit side of the cash-book :—

Paid—

Name.	Amount.			Amounts paid over Counter.			Nos. of Notes.	Money.		
	£	S.	D.	£	S.	D.		£	S.	D.

The two columns of the paid side for amounts are used when cheques presented by other banks are

paid by means of a draft on a clearing banker. When, however, there are separate books for cash received and paid, a form similar to the following would be used for receipts :—

Money.	Notes.	Name.	Total of Credit.
50	£100 5/20	J. Brown & Co.	450

This cash-book only shows the totals of credits, other particulars are given in the subsidiary books.

Another form of received cash-book is as follows :—

Date.	Name.	Particulars.	Bank Notes.	Drafts.	Coin.	Total.
	J. Brown & Co.	56125 1/20	£ 20 | s. 0 | d. 0	£ 60 | s. 0 | d. 0	£ 10 | s. 0 | d. 0	£ 90 | s. 0 | d. 0

After the paying-in slip has been entered in the cash-book, the particulars are entered in the waste-book, and finally the slip is passed to the ledger clerk for entry in the ledger.

These slips or dockets are then sorted away in alphabetical order, and are ready for entry in the customers' pass-books.

Thus by the use of dockets, we get a check upon the entries in the cash-book, ledger, and pass-book.

In a London bank it is necessary to subdivide the drafts, as already stated, since they are collected

through different channels. The drafts may consist of cheques on clearing bankers, as well as cheques to be collected by the walk clerks, and also country cheques. The total effects are therefore handed to a clerk, who enters them in a waste-book.

This book is ruled as follows :—

Name.	Total Amount.			Clearing.	Metro- politan clearing.	Walks.	Bank and Country Notes.	Bank of Eng- land.	House & Country Cheques.	Money.
	£	S.	D.							

The advantage of this book is clearly seen, because as all the various items go through different channels, it is necessary to have separate entries in order to check the totals of the books kept for Clearing, Walks, Bank Notes, Bank of England, etc.

This book is also of great assistance in the work of the daily balance of a bank, since it enables the clerk to localise the error if a wrong entry has been made.

THE PAID CASH-BOOKS.

When a cheque is presented for payment the cashier enters it, in a supplementary cash-book, which gives the particulars of the notes and money paid in exchange.

The book is ruled as follows:—

Total.	Name.	Numbers.	Amount of Notes.			Money.		
£	S.	D.	£	S.	D.	£	S.	D.
100 0 0	J. Jones & Co.	56570/1 2/5	10 0 0			90 0 0		

The totals of the received and paid cash-book are entered in the day-book or journal, which will be described in a subsequent chapter; but in a large London bank it is necessary to have other paid cash-books, in order to subdivide cheques paid through various channels.

The cheques paid over the country are thus entered twice, *viz.*, into the cashier's supplementary book and the paid cash-book.

The *paid cash-book* would be in the following form when this subdivision takes place:—

Name.	Waste Book.	General.	Paid Cashiers.
	£	S.	D.

The amount of cheques paid through the Clearing would be added the next day. In order to facilitate the work two sets of books are used on alternate days for the received cash-book, waste-book, and paid cash-book.

As all the entries in these books are checked the following morning it is almost impossible to work with one set of books, which are required daily for two distinct purposes, *viz.*, entry and check.

When the cheques are entered in the paid cash-books they are given to the ledger-keeper, and then are placed in cardboard divisions with the customers' names on separate cards. The cheques are then ready for entry in the pass-books.

It is to be noted that the same kind of check is adopted for the credit and debit side of the customers' accounts.

An additional check upon the entries in the cash-books and ledgers is obtained when the pass-books are examined. This is done by an official who checks the pass-book with the ledger-clerk. As the entries in the pass-books are made on the one side from the paying-in slips, and from the cheques on the other, there are three independent entries, *viz.*, in the cash-book, ledger, and pass-book, so that mistakes are reduced to a minimum.

THE LEDGER.

The various books in which are recorded the amounts received and paid on a customer's account prior to their entry in the ledger have been described : it is now necessary to give some account of this all-important book which shows the exact position of each account.

There are several forms of ledgers, but only specimens of those generally adopted are given.

A simple form would be as follows :—

JOHN JONES & Co.										
Dr.								Cr.		
1897.		£	S.	D.	£	S.	D.	£	S.	D.
Jan. 1	To Cash	90	0	0				50	0	0

The inner columns are used for the weekly or monthly amounts; the totals at the end of those periods are extended in the outer columns for the purpose of checking the ledgers with the cash-books.

Another form of ledger would be as follows :—

Date.	Particulars.	Debit.			Credit.			Credit Balance unless otherwise stated.		
		£	S.	D.	£	S.	D.	£	S.	D.
1897.										
Jan. 1	By Balance				1000	0	0	1000	0	0
" 10	By Gt. Indian Ry. Divid.				100	0	0	1100	0	0
" 15	To Cash	50	0	0	1100	0	0	1050	0	0

If the account is debtor, an entry to that effect is made in red ink. When this kind of ledger is used the balance on any account is at once seen, and this is very convenient when there are daily transactions consisting of a large number of entries. Sometimes

the particulars of credits and debits are stated in different columns as follows :—

1897.	Dr.	Cr.	Dr.			Cr.			Balance.		
			£	s.	d.	£	s.	d.	£	s.	d.
Jan. 1	Jones	Cash	20	0	0	65	0	0	45	0	0
" 6		Cash				100	0	0	145	0	0
" 8		Evans	10	10	0				184	10	0
			30	10	0	165	0	0			

The totals of debits and credits in this case are shown weekly under their respective headings.

When interest is allowed on current accounts, it is necessary to have additional columns for the products, so that at the end of the half-year the amount of interest can be calculated.

Date.	Particulars.	Debits.	Credits.	Dr. or Cr.	Balance.	No. of Days.	Debit Interest Products.	Credit Interest Products.
Jan. 1	Cash	£	£	Cr.	£		£	£
" 10	To Cheque		300	Cr.	300	9		2700
" 12	J. Brown	100		Cr.	200	2		400
" 15	J. Smith	100		Cr.	100	3		300
" 20	S. White	400	600	Dr.	300	5	1500	
				Cr.	800			

To interest to date at 5 per cent., £1 10s.

By interest on credit balances at 2 per cent., 6s. 10d.

In order to obtain the amounts of interest, multiply the product by double the rate per cent. and divide the result by 73,000.

Another form of ledger would show the debit and credit balances, and also the amount of interest on such accounts.

Date.	Particulars.	Dr.	Cr.	Dr. Balance.	Cr. Balance.	Interest. Cr.
		£ | s. | d.	£ | s. | d.	£ | s. | d.	£ | s. | d.	£ | s. | d.
1912.						
Jan. 2	Self - Cash	100 | 0 | 0	530 | 0 | 0		430 | 0 | 0	

The principal books used with regard to the current accounts have been described ; all other books in use are simply of a subsidiary nature. For example, the clearing books are in reality a part of the received and paid cash-books. The totals of cheques sent to the Clearing House must agree with the totals of clearing in the waste-book and other books which have separate columns for clearing. Again, the totals of cheques received from the Clearing House are entered in the paid cash-book and form part of the total amount paid every day. It will be necessary to describe separately the Clearing House system, when the books in use will be illustrated.

It has been already stated that the Waste-Book is subdivided into various columns showing the particulars of a credit, and therefore different books are required for the separate items. For example, a book is kept for the purpose of recording all cheques collected by walk clerks, and this must agree with

the total of the columns in the Waste-Book. In a similar manner the bank note-book, cheques drawn on the Bank of England, cheques drawn by other customers, which are entered in the paid cash-book, and the coin-book must also agree with the columns of the Waste-Book. There is no difficulty with regard to all these subsidiary books, as they are simply used for the purpose of facilitating the daily balance of a large bank.

Another point to be remembered is that *all* sums received and paid *must* be entered as totals in the Day-Book, or General Cash-Book, which will be subsequently described. A large number of received and paid cash-books might be utilised, but it must not be forgotten that the totals of such books require to be summarised in the General Cash-Book, which is in reality the principal book of account.

Bank book-keeping does not differ very much from that of a merchant, with the exception that instead of dealing in various kinds of goods, the bank deals in Capital represented by various forms. For example, a customer is credited with a certain amount which is represented by a series of cross entries, such as cheques, notes and money. The total of the effects received must agree with the total of the credits.

The work is subdivided, as already described, and this of necessity means that certain clerks are required to perform specific duties. Thus cheques pre-

sented for payment are paid by the paying cashiers and credits are received by the receiving cashiers, who examine the credits in order to see that the paying-in slip is correct.

Cheques not paid at the Clearing House must be sent out for collection, and this work is done by the walk clerks.

Again the transactions at the Clearing House are effected by clerks known as "clearers". There are in addition the ledger clerks and examiners ; the former entering or posting in the ledgers all cheques to the credit or debit of each account, and the latter performing a most important work, *viz.*, checking all the entries in the books.

In every bank the system of posting from the articles themselves is the check on such entries. Thus the dockets for amounts received for credits are posted or entered by the ledger clerks and also by the pass-book clerks. Cheques paid are similarly used as dockets for the same purpose.

At the half-yearly balance all the current and deposit accounts must be ruled off, and the debit or credit balance shown.

Customers are usually requested to deposit their pass-books some days previous to the 30th June or 31st December in order that the books may be balanced and agreed with the ledgers. In fact, a complete statement of cash held by the bank on behalf of customers must be shown.

In some banks, in order to facilitate the work of checking the ledgers, the various credits and debits are entered in skeleton form in a Check Ledger, and the totals of this ledger should agree with the received and paid cash-books.

A form of a check ledger would be as follows :—

Name.	Debits.			Credits.		
	£	s.	d.	£	s.	d.
	100	0	0	200	0	0
	50	0	0	10	0	0
	200	0	0	500	0	0
	350	0	0	710	0	0

Previous Day's Balance	-	-	£5000
			£5710
Deduct Debits	-	-	350
			£5360

The daily balance of each ledger is therefore stated and the totals of all the ledgers are summarised in another book so that the liabilities of the bank on current accounts are shown. If, however, an Impersonal Account, designated Current Accounts, is opened in the General Ledger, which will be considered in a subsequent chapter, the same results are obtained.



CHAPTER V.

THE GENERAL CASH-BOOK AND GENERAL LEDGER.

THE General Cash-Book is a record of *all* sums received and paid during the day, so that we get a complete record of all the transactions which have taken place. Thus money lent to customers, bills discounted, salaries paid, interest on loans, etc., are recorded and are posted from this book to the General Ledger.

A form of the General Cash-Book is shown on the next page, which would be applicable to the head office of a bank ; country accounts, as well as amounts received from branches, are included.

This form should be carefully studied, because it shows every transaction which has taken place. Thus the totals of the received and paid cash-books are summarised, as well as the transactions on loan account, discount account, and charges.

In connection with this book, the General or Impersonal Ledger is required so that the various items may be posted to the correct accounts, and the double entry system of book-keeping carried out.

For example, if a bill is discounted, the customer's

1st January, 1912.

CASH DR.

*Balance from 31st
Dec., 1911.

* This balance consists of Coin, Bank Notes and Cheques not collected the previous day.

GENERAL LEDGER.

CAGE

current account is credited and the account of bills discounted in the General Ledger debited.

The daily totals of the received and paid cash-

THE GENERAL CASH-BOOK AND GENERAL LEDGER. 49

books are posted under the heading of current accounts, consequently the balances can be agreed with the ledgers if they are kept in the form already described.

Some of the accounts of the General Ledger are shown on the previous page; for a full set see *English Bank Book-keeping*, published by Effingham Wilson, price 5s. net.

A specimen of the General Ledger is given on the previous page.

There is no difficulty in preparing the half-yearly balance sheet, since the General Ledger contains all the necessary information ; the various accounts, such as current accounts, deposit accounts, interest, salaries, discounts, rent and taxes, capital and reserve, give the necessary particulars for the general statement.

The balances of the General Ledger which are extracted daily so that the exact position of the bank can be seen at a glance are shown on the next page.

There are a large number of Impersonal Accounts opened for various purposes, and these can be shown in the General Ledger.

Then again the Investments can be subdivided or a separate Ledger kept for the purpose of recording the price paid for each Stock. The expenditure of the bank is also subdivided under various headings, such as Bank Premises, Rent, Taxes, Salaries, Individual Expenses, and Law Expenses.

It can be at once seen that the General Ledger is a good record of what is taking place in a bank.

On reference to the specimen page of the General Cash-Book it will be noticed that the last two entries refer to the Balance of Cash which consists of coin, bank notes, and cheques.

Dr. Balances.		Name of Account.	Cr. Balances.	
£	s. d.		£	s. d.
3,500,000		Capital	1,000,000	
80,000		Investments		
800,000		Reserve	750,000	
428,000		Cash		
20,000		Bank of England		
1,000,000		Bills Discounted		
1,000,000		Promissory Notes Discounted		
		Loans		
		Money at Call		
		Current Accounts, Town	2,000,000	
		Country	500,000	
2,500		Branches	1,000,000	
5,000		Deposits	500,000	
		Letters of Credit	50,000	
		Circular Notes	20,000	
		Profit and Loss	500	
		Interest Received	10,000	
		Paid		
		Charges		
		Commission	5,000	
6,835,500			6,835,500	

If all the entries have been correctly made the books of the bank should balance, because all the transactions during the day are summarised in the following manner:—

Balance from last night - £25,000	Paid Cash Books - - -	£20,000
Received Cash Books - 40,000	Balance to-night - - -	45,000
£65,000		£65,000

THE GENERAL CASH-BOOK AND GENERAL LEDGER. 51

It is the duty of an official to agree the daily balance, but without subdivision it would be somewhat impossible, in consequence of so many entries; as already shown the Waste-Book is utilised for this purpose, since it has columns for the various cash articles.

In a large London bank the final entries in the General Cash-Book cannot be made the same day because of numerous alterations at the Clearing House where the majority of cheques are paid.

CHAPTER VI.

DEPOSIT ACCOUNTS.

WHEN money is left on deposit with a bank, it is usual to issue a receipt for the same in the following form :—

— Bank.

London, 1st January, 1912.

Deposit Receipt.

No.

Received from William Evans the sum of One hundred Pounds for three years to bear interest at the rate of $3\frac{1}{2}$ per cent. per annum for that period only from 1st inst.

Entd. for Bank.

Manager.

From the above form it is seen that a fixed rate of interest is stated, but the London banks do not follow this rule, because the rate allowed is dependent upon the Bank of England rate of discount.

All sums received and paid on deposit account are entered in the Deposit Cash-Book which is in the following form :—

DEPOSIT ACCOUNTS.

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DEPOSIT CASH-BOOK.

If the depositor has a current account the amount deposited can be passed through the Cash-Book in the usual way to the credit of his deposit account and to the debit of his current account.

The balances of the deposit accounts are increased and current accounts correspondingly diminished if £100 deposited is transferred.

The daily entries from the Deposit Cash-Book are posted in the Deposit Ledger, as it is more convenient to keep transactions on such accounts distinct from those on current accounts.

The following is a specimen of a Deposit Ledger :—

WM. EVANS.

Date.	To or from Deposit.	Number of Receipt.	Dr.	Cr.	Cr. Balance.	Interest.	Notices.
1912 Jan. 1	To Deposit	50	£ 50	s. 0	d. 0	£ 100	s. 0
" 12	From Deposit					50	0 0

The interest allowed is either at a fixed rate or a fluctuating one dependent upon the Bank of England rate of discount, and is credited to the depositor quarterly or half-yearly. If, however, the deposit is withdrawn at a shorter period, the interest is calculated and paid to the depositor together with the principal, and this transaction is shown in the Deposit Ledger.

The General Ledger would also show the transaction, the deposits being diminished by the amount paid, and at the same time the cash in hand at the end of the day would be correspondingly decreased.

If the depositor has a current account the *interest* due to him is credited, and interest paid ; an account in the General Ledger debited.

CHAPTER VII.

THE CLEARING SYSTEM.

THE importance of the clearing system to banking and commerce cannot be over-estimated. Vast sums of capital are transferred from one bank to another by a system of exchange without the intervention of coin or bank notes.

The majority of cheques drawn in this country find their way either to the Clearing House in London or to other similar institutions in large commercial centres where an exchange of cheques takes place by means of a series of transfers.

For example, a bank C holds cheques upon banks D, E, F, which have respectively cheques upon C. By means of a transfer cheque upon a given bank at a central establishment the differences are paid.

This is illustrated as follows :—

C.	D.	E.	F.
Cheques.	Cheques.	Cheques.	Cheques.
£10 upon D.	£5 upon C.	£11 upon F.	£12 upon E.
15 " E.	7 " E.	8 " D.	5 " D.
30 " F.	18 " F.	6 " C.	20 " C.
—	—	—	—
£55	£80	£25	£37

(56)

C.'s ACCOUNT.

Dr.		Cr.
£5	D.	£10
6	E.	15
20	F.	30
—		—
£31		£55



In the above case Bank C has to receive £55 and pay £31; the balance therefore owing to C is £24. The central establishment where the transfer takes place is called the Clearing House, and the bank upon whom transfers are made is the Bank of England.

Each bank has a drawing account with the Bank of England, and therefore C's account is credited with £24.

In a similar manner the accounts of D, E and F are balanced.

Cheques on clearing banks may be entered separately upon the "paying-in" slips, so that the amount of the cheques can be at once entered in the clearing column of the waste-book, and then the cheques are given to the "out" clearers. The book kept by the "out" clearers is ruled with columns, and at the top of every column or columns is the name of every bank at the Clearing House. The same process is being carried on at the Clearing House, where the "in" clearer receives from the banks all cheques drawn upon the bank he represents.

At the end of the day the balance is struck, and if the bank has to receive any amount on the day's transaction the clerk writes a green ticket as follows :—

SETTLEMENT AT THE CLEARING HOUSE.

LONDON,
1st January, 1897.

To the Cashiers of the Bank
of England.

Be pleased to credit our account
the sum of £10,000 out of the
money at the credit of the account
of the clearing bankers.

£10,000.

Seen by me.

*Inspector of the Clearing
House.*

BANK OF ENGLAND,
1st January, 1897.

The account of
bank has this evening been
credited with the sum of £10,000
out of money at the credit of the
account of the clearing bankers.
£10,000.

*For the Bank of
England.*

If the bank has to pay on account of the difference
a white form is made out as follows :—

SETTLEMENT AT THE CLEARING HOUSE.

LONDON,
1st January, 1897.

To the Cashiers of the Bank
of England.

Be pleased to transfer from
our account the sum of £10,000
and place it to the credit of the
account of the clearing bankers
and allow it to be drawn for by
any of them (with the know-
ledge of either of the inspectors
signified by his countersigning
the drafts).

£10,000.

BANK OF ENGLAND,
1st January, 1897.

A transfer for the sum of
£10,000 has this evening been
made at the bank from the ac-
count of _____ to the
account of the clearing bankers.

*For the Bank of
England.*

£10,000.
This certificate has been seen
by me.

Inspector.

At the London Clearing House there are four
clearings daily in order to facilitate the work of the
banks.

The first is known as the metropolitan, and consists of cheques drawn upon the branches of clearing banks situated within a large area of the metropolis, as well as several non-clearing banks who have City Agents. These cheques must be delivered before 10 A.M.

The second commences at 10.30 A.M., and consists of cheques which were received too late on the previous day, as well as those received by the morning post, and matured bills.

The third commences at 12 noon, and is known as country clearing; consisting of cheques drawn upon country banks or country branches of metropolitan banks. Such cheques are presented for payment to the London agent of the country bank or the head office of a metropolitan bank, who forwards the same by post for collection. Payment of such cheques is made on the third day after presentment at the Clearing House. The fourth clearing commences at 2.30 and closes at 4.5 P.M. The cheques presented for payment are all cheques and drafts paid in during the day other than those already enumerated and are dealt with at this clearing.

With regard to the work involved, it must be remembered that all the "out" clearing should agree with the clearing columns of the waste-book, and the "out" clearing books must also agree with the "in" clearing books of the banks at the house.

In the same manner the clearing cheques received

from the Clearing House should agree with the paid cash-books at the bank, and also with the "out" clearing books of the various banks.

It must be clearly understood that clearing-books are only subsidiary to the cash-books.

The country clearing which represents cheques payable in the country, is effected in a similar manner. The balance to be received or paid on this account is shown on the daily clearing balance sheet at the House.

The country clearing has increased enormously because of the universal custom of payment by cheque; no less than 800,000 cheques have been cleared in one day at the London Clearing House.

A country bank, instead of sending cheques to the various banks upon whom drawn, remits them to its London agent to be paid through the Clearing House.

On their arrival in London they require sorting, and are entered upon lists in order that they can be presented to the various London agents at the Clearing House.

After they have been entered in the books of the paying banker, they are sent by post to the banks upon whom drawn, and if in order, paid on the third day after presentment at the Clearing House.

A great saving of labour has been effected in recent years by the use of Burrough's adding machines, by which the amount of cheques is not only type-written,

but the totals are added up. Thus the clerk at any time, by pulling a lever, can ascertain the amount of any number of cheques. The fatigue necessarily involved in adding or casting a large number of amounts is obviated and considerable time is saved. The total transactions of the day at the Clearing House are shown as follows:—

CLEARING BOOK.

<i>Received Clearing.</i>	<i>Paid Clearing.</i>
Morning Clearing	
Bills - - £5,000	Paid Cash-Books - - £99,200
Cheques - - 10,000	Paid Notes - - - 400
	Returns - - - 850
	Clearers' Difference - - 50
Received Cash-Books - 70,000	
Bank of England - - 15,000	
	£100,000
	£100,000

From the above it will be noticed that the two sides of the account balance, which is effected either by paying or receiving an amount from the Clearing House. It has been already stated that each bank has an account at the Bank of England, so that the balance can be adjusted by means of a debit or credit entry. In the above account the bank's account is debited at the Bank of England.

It would be almost impossible to agree at once the daily work in connection with the clearing, and therefore in some banks a Difference Account in the Ledger is opened, so that in case of mistakes the daily balance can be adjusted by means of debit or

credit entries. Of course the various errors must be found and adjusted at a later date.

In the bank the work of the clearing is done by clerks known as "in" and "out" clearers.

The "out" clearer receives the cheques from the received waste-book clerk and sorts them in alphabetical order of banks on whom they are drawn. The cheques are then entered under the respective headings of each bank and given to a clerk who has to deliver them to representatives of the banks at the Clearing House. If the "out" clerk wishes to make a casting of a certain number, he reverses one, which is a notice to the "in" clearer at the house that a casting has been made. This of course facilitates the work of agreeing at the end of the day, when the books are sent to the House for that purpose.

In the same manner the "in" clearer at the House receives all cheques drawn upon his bank, and enters the amounts under the respective headings of the banks who require payment for the same. His book must agree with the totals of the banks which deliver the cheques, and also with the paid cash-books of his own bank.

The Bank of England presents cheques drawn on clearing banks at the Clearing House, but does not receive its own cheques. It is therefore necessary to send cheques drawn upon the Bank of England to that institution several times during the day. This, of course, makes a great difference in the amount to

be paid at the Clearing House, and therefore it often happens that the banks are debited, whereas in reality the balance would be on the other side if the cheques on the Bank of England were included.

For example, banks A, B, C, and D might show a difference of £1,000,000 against them, but the same banks have sent for their credit at the Bank of England cheques for £1,000,000 ; the accounts would therefore require adjusting by means of credit and debit entries for the said amount.

All cheques payable at the Bank of England are posted to an account in the Current Account Ledger, which is always debtor ; the total of this amount must be included in order to balance the cash.

CHAPTER VIII.

BILLS OF EXCHANGE.

THE work of the bank already described largely consists in dealing with the liabilities on current and deposit accounts, but against the money owing to depositors, or, in other words, the creditors, the bank holds certain assets; the items coin, bank notes, and the balance at the Bank of England have already been considered. One of the principal assets consists in Bills of Exchange, which are utilised for the payment of debts by various individuals who find it convenient to settle commercial transactions by means of these credit documents. Instead of debts being paid on demand by cheques, bills are drawn at various periods, such as one, two or three months' date, and the debt is not discharged until that period lapses.

These documents are useful for settling international transactions, the interval between the date the bill is drawn and the due date enables the various persons to make provision for payment.

Bills are generally negotiated through the medium of banks, which have the machinery for dealing with them.

They can be divided into two classes, *viz.*, those which are the property of the customers of the bank and left for collection, and, secondly, bills purchased by the bank, or, in other words, discounted, which means that the holder of such bills sells them to the bank, who charges interest from the day they are discounted to the date of maturity; the customers are thus able to get cash for the bills instead of waiting until they mature.

It is usual to separate the two classes of bills, although the method of dealing with them is identical.

The bills discounted are, however, entered in the Discount Ledger, so that the total amount held can be at once seen.

This class of bill will be considered when the lending of the resources of the bank is dealt with.

With regard to bills which are remitted from country banks, or those which are paid in for the credit of customers' accounts and designated "short" since they mature in the course of a few days, it is necessary to enter them in a "Bills Receivable Book," which is a record of the amount, name of acceptor, and due date of the bill.

From this remittance or Bills Receivable Book, the bills are credited to an Impersonal Account in the ledger called "Bills for Collection," and when paid are debited to this account.

Thus the process at the maturity of a bill would

be that bill account is debited and the customer's account credited. A complete check on the ledger account can be obtained by marking it off from the bills themselves.

Instead, however, of bills being entered in a Bills Receivable Book, they can be entered direct in the Bill Ledger. Each customer who forwards bills for collection would have an account in the Ledger as follows :—

Date.	When due.	Amount.	Acceptor.	Dr.	Cr.	Balance.			
		£ | S. | D.			£	£	S.	D.	
		50 | 0 | 0							
		100 | 0 | 0							
		200 | 0 | 0							
		----- ----- -----							
					350	350	0	0	

The totals of each remittance would be shown in the credit and extended in the balance column.

The bills are then entered in a diary or journal which has a separate opening for each day of the year.

The diary or journal would be as follows :—

Ledger folio.	Name of Acceptor.	Folio.	Name of Customer.	Amount.
				£ | S. | D.
			c	
			o	

When the bills mature they are posted in the current account ledger from the diary. A folio number is stamped upon each bill and refers to the page in the bill ledger where it is first entered.

In this manner all bills received either from town customers or country correspondents are entered in these books.

The total amount of bills held is shown by the impersonal account in the ledger entitled " Bills for Collection ".

The daily totals of bills remitted which have been credited to customers' account in the Bill Ledger are now debited to this account.

A corresponding entry of the totals of daily payments from the cash-book is made as follows: Bill Ledger Accounts being debited and the " Bills for Collection Account " credited.

All the bills are sorted away in cases, so that at maturity they can be marked off against the diary or journal, and presented for payment.

Bills payable in the country are entered in a separate diary, and are sent for collection a few days before they mature. A record of the transaction is shown in a separate book, and when the proceeds are received, the customers' account must be credited in the usual manner. This book would be in the following form :—

Folio.	Acceptor.	Place.	Amount.	Paid.	Date.
			£ | S. | D.		

When bills are not paid at maturity it is necessary to show the transaction in the overdue bill book which is as follows:—

Name.	Amount.			Notarial Charges.			Interest.			Date when Paid.
	£	S.	D.	£	S.	D.	£	S.	D.	

The unpaid bills are usually re-presented by a notary for the purpose of being noted or protested for non-payment. If paid, the notarial charges are included in the amount and shown in a column ruled for that purpose.

The amount of unpaid bills is debited to the customers' accounts, and thus forms a contra entry to the credit made from the diaries.

Great care is necessary in order that the due dates are not overlooked, since the holders of bills must present them at maturity, and if they fail to do so the right of recourse against the parties to the bills is lost.

In order to guard against mistakes as the bills mature, they are marked off against the diaries, and it would be almost impossible for any to be overlooked at maturity, because the totals of the diaries are carried into the Received Cash Books, and consequently the daily balance would be incorrect if they were not presented for payment.

CHAPTER IX.

DISCOUNTS AND LOANS.

THE discount of bills and loans to customers is perhaps the most important work in a bank, because the prosperity of each institution is largely dependent upon the care and discretion exercised by the directors and managers in lending the resources entrusted to their charge: the profits made chiefly consist in the amount of interest received on loans and discounts.

The books required when bills of exchange are lodged simply for the purpose of being credited at maturity have already been described.

A similar set of books is used for bills discounted. For example, they are entered in diaries according to dates of maturity and also into a ledger.

The discount ledger would be in the following form :—

DISCOUNT LEDGER.

JOHN EVANS & Co.

Date.	Acceptor.	Date when Due.	Dr.		Date.	Cr.	Balance.
1912							
Jan 1.	Jones	4 April	£ 500	8 0 0		£ 500	8 0 0

The particulars of bills discounted together with the interest calculations are shown in the Discount Register.

In order to provide a check for the entries in the discount ledger, the bills may be entered in a Bills Receivable Book, already described, which contains a full description of the bills. When they mature, the dates of payment are inserted from this book.

The bills must also be entered in another book called the Acceptors' Ledger. In this book a separate account is opened for every acceptor to bills discounted by the bank, so that the amount held on any particular name can at once be seen.

This ledger is useful, since it is an additional check upon the entries in the discount ledger.

Where the transactions on loan account are large a separate cash-book is useful for all discount and loan transactions.

The totals of this book are carried into the General Cash-Book, but the loan entries are entered in reverse order, because when a loan is granted it is necessary to credit the customer's current account and debit his loan account.

The entries are shown as follows:—

DISCOUNT CASH-BOOK.

Loan paid off	- £600	Loans, granted J. Jones, on demand	- £500
Bills discounted—		Bills discounted for cus- tomers	- 1000
Paid	- 2000		
	<u>£2600</u>		<u>£1500</u>

The amount of £2000 received for bills discounted would be shown in the total of cash received during the day; if the bills are payable at Clearing Bankers, the total to be received would be increased by the above amount.

Bills discounted for customers which amount to £1000 would be credited to their accounts in the cash books.

All loans made to customers are entered in the loan ledger, the effect being that the customer's account is credited in the current account ledger and debited in the loan ledger.

In connection with the discount of bills, a record is kept of all the parties to such documents, either as drawers, acceptors, or indorsers.

For example, a book would be kept as follows:—

JOHN EVANS.

Bill discounted, £500.

<i>Drawer.</i> William Smith. <i>Banker's Report.</i> —Respectable and good for the amount named.	<i>Acceptor.</i> F. Williams. <i>Banker's Report.</i> —Large capi- tal and highly respectable.
--	---

By means of such reports it can be seen at a glance the methods of business and the character of John Evans's financial transactions.

Loans are made on various kinds of securities, and it is necessary to see that they are properly secured. If on bonds to bearer it is usual for the

borrower to sign an agreement, which may be as follows :—

" Bank.

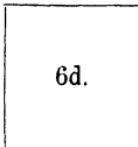
" 1st January, 1914.

" In consideration of your advancing to me One hundred pounds on loan until the 1st July next, I deposit with you £300 Chilian 5% Bonds as collateral security for the due repayment of the said loan and interest at the rate of per cent. per annum, or at such rate of interest as may hereafter be agreed upon ; the present market value of the said securities is £..... This value during the continuance of the loans I engage to maintain, and if the market price of the said securities decline, I hereby agree to deposit other approved securities, or to pay off a proportionate amount of the said loan before its maturity, should you consider it necessary.

" Unless I am able to fulfil these conditions, I hereby authorise you to realise at any time the said securities, or any part thereof ; and in the event of the loan not being repaid when due, I authorise you to deal with the securities as you think desirable, so as to repay the said loan or any part thereof with interest and expenses.

" These securities are to cover any other sum or sums of money which I may at any time, either alone or jointly with any other person or persons, be

indebted or liable to you while the securities or any part thereof may remain with you."



If shares are deposited as security, the usual procedure is to transfer them into the names of the bank's nominees. A majority of English companies accept what is known as a "common" form, which is as follows :—

" I, JOHN JONES,
 of Sheffield,
 in consideration of the sum of Five Shillings
 paid by EDWARD JENKINS,
 of Newcastle-on-Tyne,
 Gentleman,
 hereinafter called the said Transferee,
 " DO hereby bargain, sell, assign and transfer
 to the said Transferee :—

of and in the undertaking called the

TO HOLD unto the said Transferee ,
 Executors, Administrators and Assigns,
 subject to the several conditions on which
 held the same immediately before the
 execution hereof ; and the said Trans-

feree , do hereby agree to accept and take the said , subject to the conditions aforesaid.

“ AS WITNESS our Hands and Seals, this
Day of
in the Year of our Lord One Thousand Nine
Hundred and Fourteen.

“ Signed, sealed and delivered by the above-named,
in the presence of

“ Witness to sign here. { Signature,
Address,
Occupation,

“ Signed, sealed and delivered by the above-named,
in the presence of

“ Witness to sign here. { Signature,
Address,
Occupation,

When shares are transferred at a nominal consideration the deed must be impressed with a 10s. stamp, but when the consideration exceeds a nominal amount the stamp duty is as follows :—

Exceeds £5 and does not exceed £10	-	1s.
£10 ,	£15	- 1s. 6d.
£15 ,	£20	- 2s.
£20 ,	£25	- 2s. 6d.
£25 ,	£50	- 5s.
£50 ,	£75	- 7s. 6d.
£75 ,	£100	- 10s.

and 2s. 6d. for fractions of £25 up to £300, and then for every £50 or fractional part thereof, 5s.

However, it may not be considered necessary to actually transfer the shares, and in such cases the transfer is stamped 10s. (the duty for a nominal consideration), and duly signed by the transferer. At any time the bank is then in a position to transfer the shares into such name or names as it requires.

Sometimes a loan is granted against the guarantee of some other person, called the guarantor, who is required to sign a form which may be as follows:—

“ In consideration of your advancing to John Jones the sum of Five hundred pounds for three months, I hereby agree to hold myself, my executors and administrators responsible for the due repayment of the same or any unpaid portion thereof, together with interest at the rate of 4 per cent. per annum, and I undertake to pay you the amount which may become due to you under this guarantee upon your demand ”.

This guarantee should be impressed with a six-penny stamp at the Inland Revenue Office.

A banker may have customers who require the loan of capital in order to pay for goods purchased in other countries, and consequently advances are made upon documents representing goods, either on board ship or possibly landed at some warehouse previous to sale. For example, Bills of Lading, which may be drawn in four parts, *viz.*, one sent by

the ship, the second sent by post to the consignee, the third to an agent or factor of the shipper in the same country as the vendee, and the fourth is retained by the shipper. Bills of Lading represent goods shipped to another country, and the master of the ship is bound to deliver the goods to the first person who presents the said documents.

The following is an example of a Bill of Lading:—

“ Received in apparent good order and condition from the Willis Oil Company, to be transported by the good steamship *Kaiser*, now lying in the port of New York and bound for Hull, England, with liberty to call at Gravesend and any port or ports to land or embark pilots.

“ Thirty (30) barrels lubricating oil, being marked and numbered as per margin shippers' weight (quality, contents and value unknown), and to be delivered in like good order and condition at the port of Hull (or so near thereto as she may safely get) unto order or to his or their assigns. Freight, prime and charges to be paid in cash, without discount, on the said goods on discharge at the rate of four shillings sterling per barrel as per margin, delivered with prime and charges as per margin. General average payable according to York-Antwerp Rules, 1890. And, finally, in accepting this bill of lading, the shipper, owner and consignee of the goods and the holder of the bill of lading agree to be bound

JONES & SONS,
Agents.
..... Line of
Steamers.
Shippers' marks,
J. 31/80.

30 Barrels at
4s. £6 0
5 per cent. prime 0 6
Charges £6 6

by all of its stipulations, exceptions and conditions, whether written or printed, as fully as if they were all signed by such shipper, owner, consignee, or holder.

"In witness whereof the master or agent of the said ship hath affirmed to two bills of lading all of this tenor and date, one of which being accomplished, the other to stand void.

"Dated in New York this first day of October, 1897.

"JONES & SON,
"for the Master."

The Bill of Lading contains a series of agreements respecting the liability of the carrier with regard to the goods.

A bank would not take Bills of Lading as security unless indorsed in blank, and such bills should be accompanied by an insurance policy which insures the goods to London or elsewhere. A great number of Bills of Lading are continually received in the London banks, for various purposes.

For example : Bills of Lading are remitted to a bank with instructions to deliver the same against payment, or Bills of Exchange are received with Bills of Lading attached, and the Bank forwards them to a foreign country where they are given up against payment.

Another class of business in which such documents

are utilised is as follows: A Bank in New York instructs its London agents to open a credit in favour of a firm in Germany, who is allowed to draw bills upon the London bank. The latter agrees to accept the said bills upon the production of certain Bills of Lading, which, when received, are remitted to New York and the account debited for amount paid. London has become the financial centre of the world, so that a great number of transactions, similar to those already described, are continually taking place.

Another illustration with regard to Bills of Lading forming a part of banking operations would be as follows:—

A merchant in Ceylon has purchased some tea from the grower, and in order to pay for the same obtains a loan from a bank. The tea is shipped and the Bills of Lading are held by the bank as security.

The merchant informs his agent in London that he has drawn a Bill of Exchange and requests the bank to deliver the Bills of Lading on payment of the amount. When the tea arrives in London, the importer instructs a broker to sell it at public auction, and requests an Indian Bank who has received the Bills of Lading from its Ceylon branch to deliver the said documents on payment of the specified amount. In order to finance this operation, the broker obtains a loan from his bank, so that the tea is now vested in another institution. When this transaction has been completed, the broker gets possession of the

Bills of Lading from the bank so that Dock Warrants may be prepared by the wharfinger or warehouse-keeper where the tea has been lodged.

The security held by the bank is now represented by these Dock Warrants, which will be described.

Whenever a sale of the tea is effected at public auction or otherwise, the Warrants are obtained from the bank and the loan paid off. This banking operation would be similar for any other class of goods shipped to this country.

A Dock Warrant may be defined as a document which is the evidence of the title of any person therein named or his assigns, or the holder thereof, to the property in any goods, wares or merchandise lying in any warehouse or dock or upon any wharf, and signed or certified by or on behalf of the person having the custody of such goods, wares or merchandise. The Inland Revenue duty upon a dock warrant is 3d.

A Prime Warrant is issued either before or after sale for the whole parcel of goods; in the latter case it is by special arrangement in order to save the expense of making out separate warrants and weight notes.

A Weight Note is a document issued to the purchaser after the sale giving particulars of the goods, the price and the amount of deposit payable.

The holder cannot obtain delivery of the goods until the balance of the purchase money has been

paid, when he obtains the warrant which is the real certificate of ownership.

When the warrant is obtained the particulars as to the cost of goods is torn off the Weight Note.

The following is a copy of a Weight Note :—

“ Warrant. Wharf.

“ No.

“ Lot.

“ Weight Note for six chests of Ceylon tea entered by.....Tea Company on the 20th August, 1897, and declared to be imported in the steamship *India*, Captain Jones, and sold by W. Robinson & Son at public sale, 3rd September, 1897, subject to the following conditions :—

“ Prompt 6th December, 1897, and all other charges from the date of the warrant.”

Mark.	Dock Numbers.	Customs Landing Weights.	.....engage to deliver.....to..... or order the Warrant issued by the Propri- etors for the goods hereon named upon complying with the conditions of sale and paying the balance of the purchase money on or before the expira- tion of the Prompt.
		Cwts. Lb. 6 4	
		Tare - 1 26	
		Customs Net - 4 6	
		Sale Net - - 4 3	
		.	

A Warrant for the above-mentioned goods having been issued no delivery will be made without the production of such Warrant and this Weight Note.

Bills of Lading from the bank so that Dock Warrants may be prepared by the wharfinger or warehouse-keeper where the tea has been lodged.

The security held by the bank is now represented by these Dock Warrants, which will be described.

Whenever a sale of the tea is effected at public auction or otherwise, the Warrants are obtained from the bank and the loan paid off. This banking operation would be similar for any other class of goods shipped to this country.

A Dock Warrant may be defined as a document which is the evidence of the title of any person therein named or his assigns, or the holder thereof, to the property in any goods, wares or merchandise lying in any warehouse or dock or upon any wharf, and signed or certified by or on behalf of the person having the custody of such goods, wares or merchandise. The Inland Revenue duty upon a dock warrant is 3d.

A Prime Warrant is issued either before or after sale for the whole parcel of goods; in the latter case it is by special arrangement in order to save the expense of making out separate warrants and weight notes.

A Weight Note is a document issued to the purchaser after the sale giving particulars of the goods, the price and the amount of deposit payable.

The holder cannot obtain delivery of the goods until the balance of the purchase money has been

1st January, 1897.

..Wharf.

WARRANT
for Tea sold at Public Sale.

Ledger.

Warrant for 6 Chests of Ceylon
Tea declared by the Importers } Pekoe.
to be - - - - - }

Ship *Kintuck* from Colombo.

Lot.....	..... 1897.
	Rotations.
Warehouse.	Customs.
160	7640

"Entered by C. T. Jones, 15th July, 1897, and sold by Geo. Brown & Co., 1st January, 1897. Deliverable to Geo. Brown & Co., . . . or assigns by indorsement hereon. Rent commences on .. at .. . per package per week and all other charges.

"Prompt ... March, 1897."

Observe: A weight note for these goods has been issued and no delivery will be made under this warrant before the expiration of the prompt without the production of such weight note. The possessor of the weight note is entitled to this warrant upon complying with the condition of sale and paying the balance of the purchase money as expressed on the weight note on or before the expiration of the prompt. After partial deliveries, this warrant will be returned and the bearer thereof entitled to the remainder of the teas.

When the warrants are lodged at the bank as

security for a loan, the merchant signs an agreement as follows:—

“In consideration of your advancing to me the sum of Five Hundred Pounds on loan until the day of next, I herewith deposit warrants for the under-mentioned goods, which are insured under policy No.... in the Office for £ until as collateral security for the due payment of the same with interest at the rate of ... per cent., and in case I am unable to pay the above-mentioned loan and interest when due, I hereby authorise you to sell the said goods or any other goods of which the warrants or delivery orders may be substituted, either by public auction or private contract, and in such lot or lots as you may think fit, and out of the net proceeds to pay the said loan and interest and any other moneys then due to you.

“I hereby engage to renew the aforesaid policy of insurance when necessary, and in the event of my not doing so, I hereby authorise you to insure the said goods and debit me with the premiums thereon, and to repay yourselves out of the proceeds.

“The present market value of the said goods is and this value during the continuance of the loan I engage to maintain, and in the event of the market price declining I hereby agree to deposit other approved security, or to discharge such portion of the loan as you may require; otherwise you are at liberty to realise in the manner above stated.

of 1891, relating to equitable mortgages with deposit of deeds. Section 86 states :—

“For the purpose of this Act the expression ‘equitable mortgage’ means an agreement or memorandum under hand only, relating to the deposit of any title deeds or instruments constituting or being evidence of the title to any property whatever (other than stock or marketable security), or creating a charge on such property”.

An equitable charge is a valid document and the only difficulty in connection with it is that the holder may be obliged to institute legal proceedings in order to get completion of the deed of mortgage which the depositor agreed to execute.

If a legal mortgage has been obtained, no further action would be required, since the depositor has already executed to the bank a mortgage in its favour.

If advances are made on the security of Life Policies, it is necessary to give notice to the Insurance Company that they have been assigned, when the following forms would be used :—

“*To the Secretary and Directors
of the Insurance Company.*

“**GENTLEMEN,**

“ Please take notice that by an instrument bearing date 1897, and for the consideration

the sum of do hereby assign unto A B the two several policies of Assurance for Five Hundred Pounds each, effected on my life with the Life Assurance Company, dated 1st July, 1897, and numbered respectively

“ As witness my hand and seal this day of September, 1897.

“ Signed, sealed and delivered
“ by the above-named
“ in the presence of ”

On receipt of the notice of assignment the Insurance Company acknowledges the receipt as follows :—

“ Company.

“ Policy No.

“ SIR,

“ I beg to own receipt of your favour of the inst., intimating that by an instrument bearing date July, 1897, Mr. assigned the above policy to you.

“ We have duly recorded the intimation in our books, but in acknowledging that we have done so no opinion or admission on the part of the Company is to be implied as to the validity or legal effect of the deed.

“ The statutory fee of 5s. is to hand.”

The principal documents used when securities are lodged with banks for the due repayment of money .

lent have been briefly described. With regard to others, such as loans on leaseholds, ground rents, works, machinery, and mines, the documents required would be of a special character.

Again, for loans on the uncalled capital of a limited company, or upon its debentures, special forms are necessary, which would be prepared by the bank's solicitors.

The most important point to be remembered in connection with loans and advances is that the security offered should be marketable, together with a perfect title, and capable of being transferred to the bank without much difficulty or expense.

CHAPTER X.

THE AGENCY OF COUNTRY AND FOREIGN BANKS.

THE London Banks act as agents for country and foreign correspondents, and consequently every banking operation which must be effected in the metropolis is transacted by the London agent. For example, country bank notes, cheques and bills made payable in London are collected on behalf of the correspondent.

The transactions are somewhat different from those already described.

In order to give some idea of the work performed a specimen letter from a country bank is given, which is usually in the following form :—

“ GENTLEMEN,

“ We wrote to you on theand have since received your letter of the same date.

“ We now enclose for the credit of the bank, bills, etc., value £10,000 and notes £500—total £10,500, also country cheques value £12,000 for our credit.

“ Please honour the enclosed lists of drafts, amount £5000, and acceptances, amount £2000, as per lists enclosed.

“ Please make the payments as stated.

“ Purchase £5000 Consols in the name of John Steady, of High Street, Plymouth, Gentleman, and take out power of attorney for sale of £1000 West Australian three per cent. Stock in name of William Keen, of Penzance.

“ We enclose signature of Thomas Jones, whose drafts to the extent of £2000 we wish you to honour to our debit.

“ Please inform us as to the position and means of William Jenkins of Southwark.

“ We are,

“ Your obedient Servants,

“ EVANS, JONES & Co.”

The London Agent would reply as follows :—

“ We have received your favour of yesterday's date enclosing the following remittance which is placed to the credit of your account.

Bank Notes	-	£500
Bills, etc.	-	10,000
<hr/>		
		£10,500

also country cheques for clearing £12,000.

“ A statement of cash received on your account is enclosed.

“ We have purchased £5000 Consols in name of John Steady, and enclose the broker's note as well as P/A in name of William Keen.

THE AGENCY OF COUNTRY AND FOREIGN BANKS. 93

“We note your instructions with regard to Thomas Jones's drafts, and will inquire as to the position of William Jenkins.

“ We are,

“ Your obedient Servants,

“ Bank.

“ Manager.”

From the above letters it will be noticed that the correspondence should always be concise, but at the same time the instructions must be perfectly clear.

In order to carry out the work connected with the agency of a country bank it is necessary to have a separate department for dealing with such work, but the books used would be similar to those utilised for current accounts. Thus the cash-book would include the remittances received daily from the country bank for its credit, as well as the totals of credits received over the counter. If the particulars of the latter are entered in a supplementary cash-book, it is not necessary to enter each credit separately in the ledger, but simply to post the total, and send the country bank a daily statement of what is called the cash account.

The country banks usually issue drafts upon the London Agent either on demand, seven, fourteen days or other stated periods, and advise the London Agent, who enters the particulars in an Advice Book as follows :—

Date.	Drawee.		When Due.	When Paid.	Accepted.	
	Evans, No. 6500.	14 Days.	1st March.	1st March.	A	100

When the drafts mature they are discharged in this book.

The London Bank also accepts bills drawn upon it by country correspondents. The lists are entered in an Acceptance Book, which is a record of the transaction.

It is also the practice to pay bank notes issued by country banks ; conditions of the issue of such notes, which at the present time is comparatively small, are defined by what is known as the Bank Act of 1844. Each bank is allowed to issue only a specified amount, and a return of the amount in circulation must be made to Somerset House. When such notes are presented for payment in London, they are entered in the paid note cash-book. If presented by a Clearing Bank a clearing slip is given in exchange and the amount paid through the clearing. The notes are sent daily to the country bank, and are usually re-issued.

A statement of the cash account must also be sent daily, because amounts received must be included in the day's transactions of the said institution. With regard to the work carried on at the country bank, it would be similar in character to what has been

described, with the exception of the account in the Ledger headed "London Agency Account," which is kept in reverse order to that of the Agent, who is *debtor* to the country bank for cash in various forms remitted for collection.

The transfers of money are made by means of what is known as bankers' payments; thus a bank at Sheffield instructs its London Agent to forward to the head office of another institution a payment which comprises a series of amounts to be credited to the accounts of its branches.

A great number of transfers of money without the use of coin are continually taking place, the effect being that at the close of business *one* payment at the Clearing House represents a large number of banking transactions which in this manner are concentrated in the Metropolis.

The London Banks' Clearing House plays an important part in the liquidation of debts throughout the country.

All stock transactions are recorded in books kept in a separate office, so that reference can be made at any time as to stocks bought or sold on behalf of country banks.

London Banks also act as agents for foreign banks, but the work involved is somewhat different. This is illustrated by the term "acceptances," which appears as a separate entry in the half-yearly balance sheets.

The Foreign Bank, or Correspondent, draws bills •

upon the London Agent, and the latter accepts such documents when presented for that purpose.

The following is a specimen of a foreign bill :—

“ BUENOS AYRES,

“ 1st July, 1913.

“ £10,000.

“ Ten days after sight pay this first of exchange (second and third of the same tenor and date being unpaid) to the order of John Williams & Sons, Ten thousand pounds, value received, and charge the same to account of as advised.

“ THOS. BROWN & Co.

“ To Bank,

“ London.”

The London Bank accepts such bills, and at maturity debits the foreign correspondent with the amount. Approved securities are deposited in case there is not sufficient cash to meet such drafts at maturity, or until the liability is discharged. In a balance-sheet it is usually stated that the acceptances are fully covered by securities.

Bills drawn on London form a very important factor in the commercial transactions of the world. All goods shipped to this country are paid for by means of these credit documents, and *vice versa*, goods shipped from this country are paid for by bills drawn upon commercial firms abroad.

THE AGENCY OF COUNTRY AND FOREIGN BANKS. 97

Thus we have two sets of bills in constant circulation, so that according as a demand or the reverse is experienced for remittances to pay for goods, we get fluctuations in what is known as the Foreign Exchanges. The value of the sovereign expressed in foreign money is continually fluctuating, because although gold is the medium for settling payments, yet every one is anxious to avoid sending it and prefers purchasing bills for the liquidation of debts.

The subject of the Foreign Exchange requires careful study; the fluctuations of the same, together with the amount of transactions, are largely dependent upon the trade of the country. This is of course reflected in the work of a bank.



CHAPTER XI.

STOCK DEPARTMENT.

THE work of this department consists either in taking charge of the securities belonging to the bank or of those deposited for safe custody by its customers.

In connection with this work the purchase and sale of stocks and shares are effected through the bank's stockbrokers.

The Investment Ledger, a record of the bank's securities, would have a separate account opened for each investment. Thus if Cape of Good Hope four and a half per cent. Bonds were purchased, an entry is made and at the end of the half-year the value of the Bonds would be taken ; the difference between the purchase price and the market price is then carried to an account called the profit and loss on investments. The ledger would be ruled in the usual way, with an extra column on each side in order that the interest payments may be shown. Thus the debit side would be debited with the half-yearly interest, and when received would be credited

to the account in the General Ledger of "Interest and Dividends on Investments". The credit side would be credited to the debit of cash when received.

As a rule the market value of an investment showing a profit is not taken into account until the stock is actually sold. When the investment forms part of the Reserve Fund, it is usual to give a certain fixed value for the security held.

With regard to securities belonging to customers, the book-keeping would be somewhat similar to that in use for ordinary accounts. Thus the Journal would show the daily transactions of securities received and delivered. The Bond-Ledger would give full particulars of the securities lodged, and be kept on the same principle as a current account ledger.

The ledger may be in the following form :—

Date.	Numbers of Bonds.	Name of Bonds.	Amount.	Date when Delivered.	Amount.	Balance.
			£ | s. | d.		£ | s. | d.	£ | s. | d.

When inscribed stocks are purchased for customers, it is customary to keep a record of the particulars of each transaction in special books.

For example, the Consol Book gives particulars relating to that stock, as follows :—

EDWARD JENNINGS, OF LINCOLN, GENTLEMAN.

Date.	Bought.			Sold.			Balance.			Record of Powers of Attorney and Dividend Requests.
	£	S.	D.	£	S.	D.	£	S.	D.	

Similar books would also be kept for other registered stocks.

In order to obtain dividends on stocks inscribed at the Bank of England, lists are prepared by that Institution giving the full name of each stockholder, the amount of stock, the tax, and the net amount of dividend. These lists are obtained from the Bank some time before the dividends are paid, for the insertion of the necessary particulars on cards, so that the customers and country accounts may be credited when the dividends become due.

The Bank of England credits the bank's account with the total amount of the dividends.

This method of payment enables the Bank to avoid the trouble and expense of printing dividend warrants for each stockholder, and this is of great importance when we consider that there are about 133,000 accounts in Consols alone. There are other banking institutions which act as registrars for stocks, but they do not require lists to be prepared and send the warrants direct to the banks; if, however, there are a

large number payable to one bank, a cheque for the total amount is sent, accompanied by a statement showing the amount of stock and dividends due to each stockholder.

A great number of dividend warrants issued by railway and other companies are paid direct to banks, which is a great convenience to those shareholders who have banking accounts. Thus the risk of receiving warrants and transmitting them to the bank is obviated.

With regard to bearer securities lodged by customers for safe custody, the coupons attached to bonds and debentures must be collected when due. A Waste Book is kept for this purpose as follows:—

INTEREST DUE 1ST APRIL ON BRAZILIAN FOUR PER CENT. BONDS.

Name.	Amount.			Dividend.			Tax.			Net Amount.		
	£	s	d	£	s.	d.	£	s.	d.	£	s.	d.
Wm. Evans - - -	500	0	0	10	0	0	0	6	8	9	18	4

The coupons are detached from the Bonds, and the total amount of stock must agree with the entries in the Stock Ledger. When the cheques for dividends are received, the various accounts are credited by means of credit entries in the Cash Book.

The entries are compared with those of the previous half-year, and then by adding or deducting •

the amount of stock received or delivered during the above period a check on the balance held is obtained. The coupon work during the months of June and December is considerable, because interest payments are usually made in July and January.

CHAPTER XII.

THE REGISTRATION DEPARTMENT.

IN recent years the London banks have undertaken the registration of stocks and shares. The Bank of England was formerly the only institution which managed the transfer and payment of dividends on stocks. The Government considered it advantageous that the Bank of England should undertake the entire management of the National Debt in order to be relieved of the responsibilities attached thereto. When it is realised that the Funded Debt amounts to about £598,000,000 some idea can be formed of the magnitude of the work. When our Colonies issued stocks in London then other banking institutions undertook the management of such stocks on the same lines as the Bank of England.

There are two forms of registration, which are known as the book and the deed systems. In the case of the former a stockbroker lodges at the Bank a request to transfer stock from A, a seller, to B, a buyer.

The ticket is as follows:—

“ Bank, the day of 189.....

From •

£500 Victoria four per cent. stock to
 " Examined ... Dr. fo. Cr. fo. ... Transfer ...
 by Posted by .. Book."

If correct, the clerk copies the particulars from the ticket into the transfer-book, which contains a series of blank forms of transfer.

The stockbroker prepares a document called the stock receipt, which contains the particulars of the transaction.

The form is as follows :—

Liverpool Corporation Stock	£4500 at $99\frac{1}{4}$
£3 10s. per cent.	

Transfer Days.	Received this day of 1885, of John
Monday,	Jones, hereinafter called the
Tuesday,	said Transferee, the sum of
Wednesday,	Four thousand four hundred
Thursday,	and sixty-six Pounds five shill-
Friday.	ings, being the consideration
Holidays excepted.	for Four thousand five hundred
	Pounds Interest or Share in the
	Liverpool Corporation, £3 10s.
	% transferable at the Bank of
	England, and all my Property
	and Interest in and Right to
	the same and the Dividends
	thereon by me this day trans-
	ferred unto the said Transferee.
	Witness my Hand,
	£4466 5 0
	Comma 5 12 6
	£4471 17 6
Witness,	

The seller signs the book, which is a formal discharge to the bank, and the stock receipt is handed to the broker, who delivers it to the buyer.

Each transfer is a perfect deed of conveyance; the particulars are copied from the Transfer Book into the Stock Ledger.

The deed system of registration is somewhat similar, but, instead of the preparation of a ticket and receipt, a deed of transfer is prepared similar to the form mentioned on page 74. When this has been signed and witnessed by the transferor and transferee it is lodged for registration with a *certificate* representing the stock which has been previously issued by the bank.

No *transfer* is registered without the production of this certificate, which gives full particulars of the stock held.

The particulars of the transfer, when left for registration, are copied into the Transfer Register, which is as follows:—

FROM WHOM TRANSFERRED.				TO WHOM TRANSFERRED.			
No.	Date of Transfer.	Name and Address.	Dr. F.O.	Name and Address.	Cr. F.O.	Amount.	Certificate sent.
						£ s d.	

With the exception of the deed and certificate, the two systems are identical, because in both cases the particulars of the transaction must be posted in the Stock Ledger.

STOCK LEDGER.

Date.	Transfer No.	From whom Transferred.	Dr.	Cr.	Balance.	Record of Powers of Attorney.
			£ S. D.	£ S. D.	£ S. D.	

The names and descriptions of the stockholders are entered from the transfer register, so that the Ledger is kept on the same principle as that for current accounts.

In order to pay the quarterly or half-quarterly dividends a balance is struck on a particular night, either a fortnight or a month before the dividends are due, and all transactions after the specified date are "ex-dividend".

The usual method is to balance all the accounts in the Stock Ledger and then ascertain whether the total amount agrees with the amount of stock issued. If correct, the particulars are copied in the Dividend Book as follows:—

No.	Name.	Amount of Stock.	Dividend.	Jan. Tax.	Net Amount.	By whom Received.	Date of Payment.
		£ S. D.	£ S. D.	£ S. D.	£ S. D.		

The interest is calculated on each amount of stock and of course the totals should agree.

When this has been done the dividend warrants are prepared and at the date of payment are sent by post to the stockholder at his registered address unless he has instructed some bank to receive the dividends on his account.

If the book system is used the Stock can be transferred by means of a power of attorney, which obviates the necessity of personal attendance in order to make the transfer.

The power must bear a 10s. impressed stamp, and must be executed by the stockholder or stockholders before two witnesses, who must add their addresses and occupations.

Powers of attorney are usually in favour of a bank, and after they have been lodged, the representative of the bank, who is personally known, attends and makes the transfer in the books.

The stock receipt is then given to the broker acting for the bank and he delivers the same to the buyer.

CHAPTER XIII.

CIRCULAR NOTES AND LETTERS OF CREDIT.

THE issue of circular notes and letters of credit is a great convenience for those travelling abroad, since it obviates the necessity of taking coin or notes, and there is also some difficulty in exchanging cheques in foreign countries.

Circular notes are addressed to correspondents in French, since that language is universally known.

“ Bank.

“ No

“ Lettre de Crédit Circulaire pour £10 sterling.

“ Londres, ce 18

“ à Messieurs les Banquiers
désignés dans nos lettres d'indication.

“ MESSIEURS,

“ Cette lettre vous sera remise par M.....
dont vous trouverez la signature dans notre Lettre
d'Indication susdite. Je vous prie de vouloir bien lui
compter sans frais quelconques la valeur de dix Livres
(108)

Sterling au cours à usance sur Londres contre sa Traite ci-jointe sur cette Banque.

“ J'ai l'honneur d'être,
 “ Votre très obéissant serviteur,
 “ Gérant.
 “ Secrétaire.”

On the other side :—

“ Bank,
 “ Londres,
 “ £10.
 “ A sept jours de vue préfix payez à l'ordre de
 M Dix Livres sterling, valeur reçue
 “ à
 “ ce 19 . . . ”

The Circular Notes are accompanied by a Letter of Indication as follows :—

“ Londres, ce 19
 “ MESSIEURS,
 “ Le Porteur de cette Lettre, M ,
 pour lequel nous réclamons vos attentions est muni
 de nos Billets de Change Circulaires pour son voy-
 age. Nous vous prions de lui en fournir la valeur
 sur son double acquit au cours du change à usance
 sur notre place et san deductions de frais.
 “ Si la ville où il en touchera le montant n'a pas
 de Change direct sur Londres vous voudrez bien en
 combiner un avec la Place Cambiste la plus voisine.
 “ Vous observerez que tout Agio sur espèces d'or ou .

d'argent, et tous frais extraordinaires dans le cas d'un remboursement indirect doivent être supportés par le Porteur et ne peuvent être à notre charge.

“ Cette Lettre devant accompagner nos Billets Circulaires doit rester dans les mains de leur Porteur jusqu'à leur épuisement.

“ Nous avons l'honneur d'être,

Messieurs,

“ Vos très humbles et très obéissants Serviteurs,

“ Gérant.

“ Secrétaire.”

The Letter of Indication must be produced when a Circular Note is presented for payment and the holder then indorses it. The person or firm who pays the amount must see that the signature agrees with that on the Letter of Indication.

A Letter of Credit is somewhat similar to circular notes, but, instead of payment being made against notes of certain specified sums, the amount paid is recorded on the back of the said Credit.

Circular notes are accepted by hotel-keepers and others, and in many ways are considered preferable to Letters of Credit, especially in towns where there is no foreign correspondent representing the bank which issues such credits.

The form of a Letter of Credit would be as follows :—

"£300 (amount perforated).

"No.....

"LONDON, 1st January, 1914.

"GENTLEMEN,

"This circular letter of credit will be presented to you by Mr. Thomas Brown, and we request you to hold at his disposal the sum of £300, say Three hundred pounds, and to pay him in such sums as he may require. Please to indorse hereon any advances made to him, and to draw upon us at sight, which we hereby agree to accept. This credit is to continue in force till the 1st July, 1914.

"We remain,

"Your obedient servants,

"..... Manager.

"..... Secretary."

The reverse side of the Letter of Credit is as follows:—

Date.	By whom Paid.	Amount Paid.	Amount in Figures.		
			£	S.	D.
•					

As a protection to the holder the Letter should be kept separate from the list of correspondents.

The usual course adopted in a bank is to open an •

account in the Ledger entitled Foreign Credit Account, and when a Letter of Credit is issued to debit the customer's account and credit the Foreign Credit Account. When the bills drawn against the credit are presented for payment the Foreign Credit Account is debited with the amount.

As there is always a demand abroad for bills drawn upon this country, the foreign correspondent is generally able to make a profit over the transaction by selling the draft at the rate of exchange for the day.

A London bank is also required to open credits for the customers of foreign banks in a similar manner to the issue of Letters of Credit already described.

The following would be an example:—

“ BUENOS AYRES,

“ .. April, 1914.

“ ... Bank,

“ London.

“ We shall be obliged by your placing the sum of five hundred pounds (£500) at the disposal of Mr. John Jones, making the whole amount or any part of it available to him at other places if desired. This credit to remain in force for three months from this date.

“ Please debit our account with payments made under this credit, and favour us with your accustomed early advice of the same.

“ I am,

“ Your obedient servant,

“ Manager..

"Mr. John Jones will sign as follows:—

"A HISTORY OF THE AMERICAN PEOPLE"

We might say that London is the financial centre of the world, and consequently shipments of goods from one country to another are paid for by means of bills drawn upon the Metropolis.

For example, a merchant in Australia who is an importer of goods from America, wishes to pay the buyer who resides in New York.

In order to do this the Australian merchant obtains from the Bank what is known as a "Marginal Credit".

The Australian Bank informs its agents in New York that a credit has been granted in favour of the American firm, which is allowed to draw on the London Branch provided the conditions under which the credit is granted are complied with. The margin of the bill is as follows:—

"We, as agents of the Bank, hereby certify that A. B. has complied with the conditions of a credit issued by that bank at Melbourne, No. dated 1st January, 1897, so far as regards the set of exchange of which the annexed is the first, and that the first presented bill of such set of exchange, if drawn by them in terms of the said credit before 1st July, 1897, for £500, payable ten days after sight, will be entitled to due honour by the Bank, provided this certificate, as annexed to such

bill, be presented herewith and delivered to the said
.....Bank in acceptance thereof."

This certificate is attached to the bill, which is as follows:—

"No. £500.

" New York.

" 1914.

"Ten days after sight pay this first of exchange
(second and third of the same tenor and date being
unpaid) to the order of W. B. & Co. the sum of five
hundred pounds, as per Melbourne branch credit,
No. dated

"To Bank,

"London."

This is an excellent illustration, showing how banks are utilised for the purpose of settling international trade without the transmission of the precious metals from one country to another.



CHAPTER XIV.

BRANCH BANKS.

THE recent amalgamation of various banking institutions was the principal cause of a large increase in branch offices throughout the country, so that new methods were necessary in order to make the branch system of banking a success.

This, however, could not be attained without a uniform system of book-keeping together with a perfect organisation of inspection carried out by a staff thoroughly conversant with the daily routine, so as to obtain a perfect check upon every banking transaction.

The system by which branch banking is carried out will now be explained.

An outline has already been given of the work at the Head Office, and that at a branch is in many respects identical, since there must be uniformity.

It has been already stated that a London bank sends daily advices to country banks for whom it acts as Agent; such returns are necessary because it would be impossible to show a correct statement without including the transactions in London on account of the country bank.

The relation between the Head Office and a branch •
(115)

is similar; a daily statement is sent to each branch showing the transactions which have taken place on its account. In a similar manner the branch sends a statement of its daily or weekly operations.

It has been explained that a customer is supplied with a Pass Book which is a record of receipts and payments: this method is also adopted by the branch and Head Office.

A Ledger Account is kept at both places and these two accounts must agree.

At the branch the account is entitled Head Office Cash Account in which all debit and credit entries appear.

For example, the Head Office has a balance of £10,000 on Account of Branch A; the ledger entry at the Head Office would be as follows:—

1905.	Dr.	Cr.	Dr. Balance.	Cr. Balance.
July 1	£	£ 10,000	£	£ 10,000

This shows that the Branch is creditor for £10,000; at the Branch the entries are reversed because the Head Office is debtor for that amount.

The entries are as follows:—

1905.	Dr.	Cr.	Dr. Balance.	Cr. Balance.
July 1	£ 10,000	£	£ 10,000	£

If the Branch requires £2000 in gold and £1000 in Bank of England notes the book entries would then be :—

HEAD OFFICE.

1905.	Dr.	Cr.	Dr. Balance.	Cr. Balance.
July 1	£	£	£	£
" 3	3000			10,000 7000

BRANCH A.

1905.	Dr.	Cr.	Dr. Balance.	Cr. Balance.
July 1	£	£	£	£
" 3		3000	10,000 7000	

It is important to carefully note these transactions because it explains the method of book-keeping which is adopted by the banks throughout the country. This procedure is similar to a bank acting as agent for a country bank, a copy of the Ledger Account being sent at stated intervals.

In the case of the branch, a Pass Book is kept which is in reality a copy of the Ledger Account in the General Ledger. This book is sent daily or weekly to the branch, and the figures must agree with the corresponding entries in the General Ledger at the Head Office. A daily letter of advice is also sent showing the principal operations which have occurred during banking hours.

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July 1	£	£ 10,000	£	£ 10,000

This shows that the Branch is creditor for £10,000; at the Branch the entries are reversed because the Head Office is debtor for that amount.

The entries are as follows:—

1905.	Dr.	Cr.	Dr. Balance.	Cr. Balance.
July 1	£ 10,000	£	£ 10,000	£

3rd July, 1913.

CASH DR.

CASH CR.

	£	s. d.	£	s. d.	£	s. d.	£	s. d.
To Current Accounts paid in	5000				By Current Accounts drawn out			
" Deposit Receipts paid in	200				" Deposit Receipts drawn out			
" Bills matured per Diary	1000				" Bills discounted			
" Promissory Note Account per Diary	400				" Promissory Notes discounted			
" Loans paid off:— W. Brown	300				" Loans granted:— W. Gordon & Co. F. Bright			
J. Jones	550				600 150		750 5	
Commission A/c Interest received Head Office	10 50 5000				Salaries Account Rent and Taxes Incidental Exp. Head Office		25 10 10 2	
" Balance from 1st July	12,510 2000				3000		3000	
	14,510							
					,, Balance 3rd July		8592 12	
					Notes	£2000 0 0	5917 8	
					Coin	1000 0 0	—	
					Drafts	2917 8 0	14,510 0	
							£5917 8 0	

such accounts; from this book the various entries are posted in the General Ledger as described in a previous chapter.

This book is similar to the Journal which is utilised in a merchant's office, so that the principal books of accounts, *viz.*, Cash Book, Journal and Ledger, are found in every bank for recording transactions.

The double entry system of book-keeping is carried out in the Day Book or Journal, cash being debtor for all sums paid into the Bank, and creditor for amounts paid out.

For example, cash is debtor for £12,510 and creditor for £8592 12s., the balance £5917 8s. is the actual amount of cash held at the close of business, and it will be noticed that the balance of cash at the Branch has been increased from £2000 to £5917 8s.

The following illustration will show the transactions between the Head Office and the Branch, as stated in the General Cash Book: Notes and gold for £3000 was sent from the Head Office, but at the same time the Branch was credited with £5000, the effect being to increase the balance by £2000.

The Ledger entry would be:—

1905.	Dr.	Cr.	Dr. Balance.	Cr. Balance.
July 1	£	£	£	£
" 8	3000	5000	10,000	
" "			12,000	

On the same principle every entry is posted in the General Ledger.

It has been noticed in a previous chapter that sometimes the credit and debit columns of the Ledger are in reverse order to the Pass Book ; the exact relationship between the Branch and the Head Office is shown by this system, the various entries made in the Cash Book being reversed since the Head Office is debtor to the Branch for sums received and creditor for sums paid.

It must always be remembered that the Head Office Cash Account is similar to a Current Account except that the Branch is as it were the customer of the Head Office.

The Pass Book given to the customer resembles the Cash Account sent from the Head Office, which is a record of various transfers of money to or from other Branches or the Head Office, and such transfers can easily be arranged by means of debit and credit entries through the Head Office Cash Account.

In the daily letter of advice the Branch would request the Head Office to make the necessary transfers, and the operations would be effected through the Cash Account.

At the same time the Branch would advise the other Branches of the transactions, so that the necessary debit and credit entries can be made in their respective books.

For example, Branch A asks the Head Office to . .

credit Branch B with £50, the effect being A is debited and B credited without the transmission of any coin.

Then, again, Branch A requires £1000 in silver, and therefore asks Branch B, which has a large stock, to supply the same.

These Branches would advise the Head Office of the transaction, Branch A being debited and B credited with the said amount.

The advantages of this system are obvious, since large transfers of money from one Branch to another take place, and are only represented by book entries at the Head Office.

The Cash Account may be a return either weekly or for a longer period, all other transactions being shown in the daily letter of advice.

It is, however, desirable to extract daily the balances from the General Ledger, because it forms a check upon the various entries; when this has been done, the two sides of the account should agree.

The weekly return is practically a Balance Sheet showing the assets and liabilities in the form on opposite page.

The weekly or fortnightly returns may be summarised as follows:—

1. A debtor and creditor statement of the General Ledger balances at the date of making the return in the form already described.
2. An abstract of transactions or a statement of

daily entries on some of the most important accounts.

3. An abstract of money lent and deposited. The former would embrace loans, discounts, advances on short bills and overdrafts, the latter particulars of current and deposit accounts.

4. A list of overdue bills with particulars.
5. Particulars of interest and commission received and paid.

6. Abstract of the Expenses Accounts.
7. A statement of debtor balances on Current Accounts with particulars.

8. A return of stamped forms of drafts, also the number of deposit receipts issued or cancelled during the week with the balances on hand.

Dr. Balances.			3rd July, 1913.			Cr. Balances.		
£	S.	D.				£	S.	D.
5917			Cash					
600			Bills Discounted					
100			Promissory Notes					
850			Loans					
5000			Current Accounts			14,460		
10			Overdrawn Accounts					
			Deposit Receipts			10,000		
			Stamps					
5			Interest Received			50		
			", Paid					
10	10		Commission			10		
25			Rent and Taxes					
2	2		Salaries Account					
12,000			Incidental Expenses					
24,520	0		Head Office					
						24,520		

One of the returns during the month should state the number of accounts opened and closed.

In London some of the Metropolitan Offices are known as Clearing Branches ; such offices present cheques direct at the Clearing House. The balance to be paid or received at the end of the day is effected by debit and credit entries in the Head Office Cash Account.

The Head Office sends to the Branch cheques drawn upon it and paid through the country clearing, when cheques are paid the total amount is debited. On their receipt at the Branch the Head Office Cash Account is credited and the various accounts upon which such cheques are drawn debited.

Cash received at the Head Office for the credit of a Branch would be treated as follows : Branch Account is credited and Cash Account at the Branch debited.

It is usual for each Branch to send Scotch and Irish cheques and bills for collection due in the country direct to the places where they are payable in order to save time.

Impersonal Accounts are opened in the Banks' ledgers entitled Collection Accounts, and the proceeds when received are credited to such accounts.

It will be noted that all such transactions are effected without any actual coin passing from one place to another, which means a great economy in our banking methods.

The following is an example of transactions at the Head Office on behalf of a Branch.

HEAD OFFICE CASH ACCOUNT.

PLYMOUTH BRANCH.

From 1st January to 8th January, 1914.

DR.		CR.
To Balance at Head Office	- £10,000	By Country Cheques £660
,, Country Cheques	- 5000	,, Cheque unpaid on Luton Branch 20
,, Account W. Brown per Head Office	- 200	,, Stationery - 5
,, Account C. Jones per Luton Branch	- 50	,, Cambridge Branch Account, W. Jones 90
,, Account C. Robinson per Oxford Branch	- 20	,, Ely Branch Cash - 100
,, Cheque, Aberdeen	- 10	,, Payments - 200
,, " Perth	- 10	,, Draft on demand issued - 50
,, " Dublin	- 5	,, Draft after date issued - 20
,, Remittance	- 20	,, Coin - - - 1000
,, " Cambridge Branch	- 30	,, Notes - - - 500
,, Coin	- 200	,, Balance - - - 18,060
,, Notes	- 100	£15,645
		£15,645

It is not usual for the country banks, upon whom such cheques or bills are drawn, to remit the proceeds direct to the Branch, but to instruct their London Agents to pay the Head Office of such Branch, and when the money is received the usual routine of debit and credit entries are made.

An illustration of the work at a Branch may be given by means of an analysis of the Cash Articles paid in by customers during the day, *viz.* :—

	£
Coin - - - - -	4000
Notes - - - - -	6000
Cheques and Bills - - - -	10,000
	<hr/>
	20,000
	<hr/>

The cheques and bills which form part of the total when subdivided are as follows :—

Cheques on London Clearing	£
Bankers - - - -	4000
Cheques on Country Banks - -	4000
Bill of Exchange payable at	
Birmingham - - -	1000
Do. at Manchester - -	1000
	<hr/>
	10,000
	<hr/>

Town and country cheques would be remitted to the Head Office under the heading of Cash Account for its credit. When the banks at Birmingham and Manchester have collected the bills which are sent direct, they instruct their London Agents to pay the Head Office of the Branch, which is duly credited with the proceeds.

The procedure at the Head Office is carried out at the Branch when bills are discounted, the customer's account being credited and the account in the General Ledger entitled Bills Discounted debited. If the Head Office receives the bills discounted and collects

them it is usual to send the bills back if payable at the Branch or in the immediate neighbourhood.

If any of the bills are unpaid the customer's account would be debited and Bills Discounted credited.

The entries in the bank books when a bill is discounted for a customer are as follows:—

Bills Discounted Account is debited and the Customer's Account credited with the full amount of the bill, the interest which the Bank receives is calculated to the date of maturity and the amount of such interest is debited to the Customer's Account, at the same time Interest Received is credited.

Whenever bills or promissory notes are discounted a series of debit and credit entries are made in the books.

The customer may, however, require a draft on London for the amount received on discounting a bill; when this is the case the Current Account is debited and the Head Office credited.

The entries in the books would be as follows:—

	£	s.	d.		£	s.	d.
Current Account—				Bills Discounted—			
J. Jones's Bill	100	0	0	Jones, 4th Jan.	100	0	0
Interest Received—				Current Account—			
J. Jones	2	10	0	Debit J. Jones	2	10	0
Head Office A/c—				J. Jones—			
Draft No. 1001 to				Draft on London	97	10	0
Jones	97	10	0				

In fact the Head Office is advised of every important banking operation which takes place. At the end of the half-year the work is considerably increased, since it is necessary to balance all the ledgers and pass

books in order to ascertain whether the entries have been correctly made. The balance on every account is shown so that the two sets of books already mentioned must agree. This is also necessary for the purpose of verifying the entries in the General Ledger which contains a summary of the principal accounts.

For example, the totals of the ledger balances must agree with the balance of current accounts in the General Ledger.

In the same manner the Deposit Ledger, the Bills Discounted Ledger and other similar books are balanced in order to agree with the totals as already described.

The next important step is to ascertain the profit which the Branch has made during the half-year.

It is necessary that the amount of cash which the Head Office holds on behalf of the Branch should be taken into account, because interest is allowed on the balance. On the other hand, if the Branch has lent more than its actual resources, interest will be charged by the Head Office for the overdraft.

The Head Office informs the Branch a few days before the end of the half-year what rates of interest will be allowed and charged.

For example, 2 per cent. may be allowed on the cash balance and 3 per cent. charged for overdrafts, since it is assumed that the Branch ought to be in a position to obtain higher rates than those charged by the Head Office.

Reference has already been made to the importance of extracting daily the balances from the General Ledger; at the end of the half-year the same process takes place, but in addition it is necessary to close the Profit and Loss Accounts in this Ledger; the Head Office is then either debited or credited with the balance, so that the Branch begins each half-year with such accounts eliminated by means of debit and credit entries. This is effected by making a separate opening in the Cash Book after the usual day's transactions are recorded.

CLOSING ENTRIES.

CASH DR.

To Salaries Account	-	-	-	-	£1000	
„ Rent and Taxes	-	-	-	-	200	
„ Incidental Expenses	-	-	-	-	100	
					—	£1300
„ Interest Paid	-	-	-	-	-	500
„ Profit and Loss—						
Commission	-	-	-	-	-	500
Interest Received	-	-	-	-	-	5000
„ Head Office—						
Profit and Loss	-	-	-	-	-	4000
						£11,800

CASH CR.

By Commission	-	-	-	-	-	-	£500
„ Interest Received	-	-	-	-	-	-	5000
„ Profit and Loss—							
Charges	-	-	-	-	-	-	1800
Interest Paid	-	-	-	-	-	-	500
Head Office	-	-	-	-	-	-	4000
							£11,300

The Head Office as already stated informs the Branch what rate of interest is allowed for the cash balance, and the amount is shown in a supplementary Profit and Loss Account, although it is not necessary to make book entries of the transactions.

The Branch may not possibly show a large profit for the half-year, but it must not be forgotten that the Head Office may have held a large cash balance which has been utilised at a profit.

For example, the Head Office may have utilised the cash balance held on account of this particular Branch for another district where there is a greater demand for loans.

In Scotland, where Cash or Credit Accounts are opened on the security of guarantors, a quarterly return is made as follows:—

Date when Granted.	Name and Designation of Principal Obligant.	Name and Designation of each Security.	Amount.	Amount Due.	Remarks.

Under the heading "Remarks" the agent reports fully on the present position of all the obligants both Principal and Securities.

As a rule, there are outstanding differences between

the Head Office Account and the Branches in consequence of the proceeds of cheques not being received, so that it is necessary at the end of the half-year to open an account entitled "Amounts in Transit," when all outstanding differences are either debited or credited to this account, which has the effect of making the Head Office Account, and the Branch Account agree, and on the following day the amounts are reversed.

The returns must always be complete to enable the Head Office to form an opinion as to the working and position of the Branch. This can only be effected by means of full returns giving every particular with regard to loans, discounts and overdrafts. The interest charged and allowed is also shown as follows :—

Interest Charged—					
Bills discounted	.	.	.	.	4 per cent.
Overdrawn Accounts	.	.	.	.	5 "
Interest Allowed—					
Current Accounts	.	.	.	.	1 per cent.
Deposits at Cash	.	.	.	.	1½ "
Deposits at Notice	.	.	.	.	2 "
,, fixed 8 months	.	.	.	.	2½ "
,, " 6 "	.	.	.	.	2¾ "
,, " 12 "	.	.	.	.	3 "

When it is considered that nearly 50 per cent. of the assets of a bank consist of advances to customers in various forms, it can be understood that great care and attention is required at the Branch in order to avoid bad debts.

The securities lodged as cover require constant supervision, and their marketable value periodically ascertained, so that any depreciation may be noted, and, if necessary, the customer is asked to provide additional cover.

It is manifest that the branch system of banking has been of great advantage to the people of this country, and at the same time a great economy in our banking system is effected.



CHAPTER XV.

GENERAL BALANCE STATEMENT.

IT has been stated that banks require books in order to show what amounts are held on account of depositors as well as on what are known as current or drawing accounts. Against such amounts the bank holds certain assets, such as Cash, Money at Call, Government Stocks, Foreign and Colonial Stocks, Bills discounted on behalf of customers, and loans granted on approved securities

In addition to the above mentioned there is another item which appears in the bank books and known as the capital of the bank.

There are certain individuals designated shareholders, who have subscribed capital in order to start the business of banking. It is necessary that books should be kept showing the names of such shareholders, and also for the purpose of recording the purchase and sale of shares in the market.

A register is kept which shows :—

1. The names and addresses of the shareholders.
2. The date when each person became a shareholder.

3. The date when he ceased to be a member.

An annual return must be made to the Registrar of Joint-Stock Companies giving the following particulars, *viz.* :—

(1) The amount of the capital of the company and the number of shares into which it is divided.

(2) The number of shares taken from the commencement of the company up to the date of the summary.

(3) The amount of calls made on each share.

(4) The total amount of calls received.

(5) The total amount of calls unpaid.

(6) The total amount of shares forfeited.

(7) The names, addresses, and occupations of the persons who have ceased to be members since the last list was made and the number of shares held by each of them.

A set of books similar to those kept in the Registration Department might be used, *viz.* :—

1. A transfer register giving particulars when shares are transferred.

2. A ledger where all the transactions from the transfer registers are recorded.

3. A dividend book giving the particulars of yearly or half-yearly dividends when paid.

In addition to the capital of the bank which is partly invested in Government Stocks or other first-class securities there is the reserve fund which represents the accumulated profits of previous half-years,

and this is also usually invested in the same class of securities. When there exists a period of commercial crisis or panic the advantage of holding a large proportion of the bank's capital and reserve in first-class securities has been most beneficial, because on several occasions in the history of banking the only realisable stocks have been Consols, Exchequer and Treasury Bills. The balance sheet can be divided into two parts, *viz.*, the General Statement and the Profit and Loss Account ; the first shows the assets and liabilities of the bank, and the second the result of the half-year's operations.

With regard to the assets it will be noticed that they are marshalled according to their liquid character ; the cash in hand and at the Bank of England represents the first line of defence.

There is no definite rule as to the amount to be held, but the London Banks hold on an average about 16 per cent. of their deposits in cash.

The money at call represents capital lent to bill brokers on the security of first-class bills or Government Stocks. The investments which form the next item consist of various securities of a first-class character ; the necessary particulars appear in the Investment Ledger. It is usual to take investments at cost price, or possibly at a lower value ; for example, Consols are valued at 70, whereas the market price may be considerably higher.

This is, of course, an additional reserve, because if

the bank held £1,000,000 at 70, the balance-sheet would show an amount of £700,000, whereas the market value at 75 would be £750,000. The difference of £50,000 would constitute an additional reserve. Investments which have fallen in value should be taken at the market price and the debit balance carried to profit and loss account.

The amount of bills discounted and the totals of loans and advances would be shown in the general ledger as well as in the Loan and Discount Ledgers.

The next item would be liabilities of customers for acceptances, and this must be stated in the balance-sheet since the bank is called upon to pay such acceptances at maturity; on the other hand it holds marketable securities against them, and for this reason the amount is shown on both sides of the balance-sheet. The total sum would be also shown in the Acceptance Book, which records the amounts and particulars of bills drawn upon the bank and accepted. The last item of the assets is the bank premises account; it is usual to write off a certain amount annually, so that the amount in the books is considerably below the market value of the premises.

With regard to the liabilities, they are easily ascertained from the General Ledger; under the headings of deposit and current accounts the amounts due to depositors are shown.

The liabilities on circular notes and letters of credit appear in the foreign credit account.

Although the bank is liable for these credits, it is usual to debit the current accounts for the total amount issued, and credit the impersonal one.

It has been already mentioned that the Capital and Reserve Fund are accounts in the General Ledger. The rebate of bills not due is part of the amount of interest received on bills discounted, but as such bills have not matured, at the end of the half year only a part of the interest is really earned, and this item therefore must appear in the Profit and Loss Account. In order to ascertain what is due to or by the bank on Interest Account it is necessary to open a new account called the Adjustment Account of Interest. Thus all interest due to the bank on current accounts is calculated and debited to Adjustment Account of Interest and credited to Interest Account. In the same manner interest due by the bank on deposit and rebate on bills discounted is credited to the Adjustment Account and debited to Interest Account, and the balance of this account is carried to Profit and Loss. The balance of Adjustment Account is transferred to the General Balance Account, which shows how the differences have been adjusted.

It is usual to carry forward a sum which represents undivided profits in order to provide for contingencies. For example, if a loss has been made during the half-year this fund may be utilised for this purpose.

The balance-sheet is usually in the following form:—

Dr.	<i>Liabilities.</i>	Assets.	Cr.
Capital—100,000 shares of £100 each	£10,000,000	By Cash in hand and at Bank of England	£5,000,000
To amount paid up—£40 per share on 100,000 shares	£4,000,000 1,000,000	" Money at call and short notice	8,000,000 £13,000,000
" Reserve Fund	-	" Investments—	
" Amount due by the Bank on Current Accounts, Deposit Accounts and Circular Notes	45,000,000 300,000	£2,000,000 Consols at 75% English Railway Debenture and other First Class Stocks	£1,500,000
" Drafts Current	45,300,000	" Bills discounted	£5,000,000
" Customers' Acceptances, Contingent Liability (as per contra)	£3,000,000 60,000	" Loans and Advances to Customers	20,000,000 25,000,000
" Foreign Bills negotiated	-	" Acceptances on behalf of Customers (as per contra)	
" Profit and Loss Account—	3,060,000	" Foreign Bills negotiated (as per contra)	£3,000,000
The Usual Dividend now proposed to be paid	£160,000	" Bank Premises and Furniture	60,000 3,060,000 930,000
The Usual Dividend proposed to be paid 1st Nov. Balance of Undivided Profit to be carried to next Account	140,000		
	130,000		430,000
			<u>£53,790,000</u>

PROFIT AND LOSS ACCOUNT FOR THE HALF-YEAR.

	Cr.
Total Expenditure (including Salaries, Auditors' Fees, Rent, Taxes, and all other charges) -	£300,000
bate of Discount on Bills at 5 per cent. -	40,000
erim Dividend of 10 per cent. £200,000	
oposed Dividend of 15 per cent. 300,000	
alance of Undivided Profit - 80,000	<u>550,000</u>
	<u>£920,000</u>
Gross Profits for the past half-year (including Rebate brought from previous half-year, and after appropriating £5000 towards the Premises of the Bank, paying the Income Tax, and making due provision for bad and doubtful Debts) -	800,000
" Balance of Undivided Profit, 31st Dec-ember -	£120,000

CHAPTER XVI.

INTEREST.

A BRIEF outline of the work would be incomplete without reference to the subject of interest, which plays an important part in the daily routine.

It must be remembered that the profits of the banks are largely dependent upon interest, and at every bank meeting reference is made to the rate ruling in the market during the previous six months. The profits are mainly derived from the difference between the rate allowed on deposit and that charged for loans.

For example, if 2 per cent. is given for deposits and 3½ per cent. charged for loans there is an apparent profit of 1½ per cent., but against this the working expenses must be deducted.

If the difference between the two rates is large the profits are correspondingly increased, but, on the other hand, when the difference is small, the profits are proportionately less.

There are two facts to be remembered in connection with banking, *viz.*, profits depend upon the earnings of capital, and also that a large amount of capital is stored up in banks.

The daily transactions are considerably affected when the fluctuations in the rate of interest occur. If trade is active there are more banking operations, which is reflected by numerous alterations in the rate of interest.

On the other hand, when trade is depressed the effect is soon felt by the banks, and consequently the daily work is considerably lessened, and when the cause and effect of fluctuations in the rate of interest are considered it will be seen how it indirectly affects the daily routine.

Interest is defined as the money income derived from the loan of capital, but another term is frequently used, especially with regard to the loan of money on bills of exchange, and that is "discount," which is defined as the difference between a sum of money due at a future period and its present value, or a deduction that is made from the amount of a debt that is paid before it is due. The amount deducted depends upon the value of money or what is termed the rate of discount.

A bank does not deduct discount which is the interest of the present worth of a sum of money calculated from the present time to the date when the sum would be payable, but simply the interest from the date when the loan is granted to the maturity of the bill.

The difference between true discount and interest charged, on a bill for £1000 payable at seven months'

date at 5 per cent. would be 1s. $\frac{9}{10}$ in favour of the bank.

It is somewhat difficult for a beginner to understand the causes of fluctuations in the rate of interest, but the most important point to remember is that the price for the loan of capital varies with supply and demand—in many respects similar to the price of coal or iron. Capital, however, is subject to considerable fluctuations, due to the state of credit.

In this country a great number of commercial transactions are based upon credit ; that is, a merchant sells goods and receives in exchange a bill payable at some fixed period. Through the medium of banks he is able to get this bill discounted, provided the acceptor is well known to the banker and the merchant's credit is good.

When, however, there is a feeling of distrust in the money market it is somewhat difficult to discount bills, and naturally the rate of interest rises. There is more risk attached to the transaction, and consequently the banker expects to receive a higher rate of interest for the business. Then, again, the state of trade causes fluctuations in the rate : when trade is active, every one is anxious to profit by rising prices, so that a great number of applications for loans of capital take place. Under such circumstances the rate rises and sometimes very rapidly.

The reverse takes place when trade is depressed ; the demand for the loan of capital becomes less, and

consequently the rate usually falls. The demand for capital is therefore largely dependent upon the activity of trade.

The movements of capital have a corresponding effect upon the work, because with active trade each department is busy with banking operations caused by such changes in the commercial world.

On the other hand, the supply of capital is dependent upon interest, for with a high rate every one is anxious to lend. Supply is also affected by the savings of the people, and this is of importance, the result being an accumulation of capital which causes the rate of interest to fall.

Banking operations are in many ways dependent upon the Bank of England rate of discount, but it is somewhat difficult to understand why the Bank should fix the rate.

The fact of its large paid-up capital, together with great deposits on private and Government account gave it a unique position, so that from the early days of banking it assumed the responsibility of fixing the price for the loan of capital.

Then, again, the Bank holds to a large extent the cash reserve of the country.

It is well known that all our transactions are based upon gold, and although cheques, bills, and notes are utilised for the purpose of transferring capital from one person to another, yet all the transactions are carried out on the assumption that in the case of

necessity there is sufficient gold in the country to liquidate debts between individuals.

Similarly our foreign trade is transacted upon the same basis. Bills of Exchange are used for settling international trade, but yet it often appears that gold is finally required to settle the indebtedness.

The Bank of England holds a large amount of gold, so that movements of that metal to and from that institution are carefully observed by the mercantile community ; capital is usually attracted to this country when the rate of interest is raised since that commodity generally finds its way to the most profitable market. Another very important reason why the Bank of England occupies such a unique position is in consequence of the banks in this country keeping a large portion of their cash at that institution, so that any sudden demand for capital is soon reflected in the amount held.

It thus follows that the total amount of capital held becomes the guiding force or pivot upon which the money value, or in other words interest, depends.

Thus the rate decided upon by the Bank has become the official guide for other banking institutions in fixing rates of interest.

Outside the Bank there are a group of persons termed bill brokers who are willing to discount bills at a lower rate than the central institution ; they are enabled to do this by receiving money on deposit at comparatively low rates of interest, such rates being

fixed at a meeting previously held at one of the discount houses.

When this has been decided, each discount house settles for itself what rates shall be quoted for bills. Thus a daily varying rate exists in the market, but of course the tendency is always towards a uniformity of price.

Sometimes the competition for business is very keen, so that the difference between the deposit and discount rates is only $\frac{1}{2}$ per cent. or even less.

When the margin between the deposit and discount rate is large, the profits of the bill brokers are proportionately increased.

The banks lend a certain amount of their capital to the discount houses, and this tends to increase the competition for bills; the great aim of banking is to prevent capital lying idle, or in other words, being unremunerative.

If the discount houses are unable to obtain all the capital they require from the banks or the money market they apply to the Bank of England for loans in order to make up the deficiency, but such loans are only made for certain stated periods, and great changes in the value of money may occur before the loan is repaid. For this reason an effort is made to get loans in the outside market.

The Bank soon realises the position and knows when capital is scarce by an increased number of applications for loans and discounts, it therefore be-

comes necessary to raise the rate of discount in order to protect the gold reserve.

The subject is interesting, and every bank official should understand the main principles, so that when alterations in the rate do occur he would know why such changes have occurred.

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